HIGH-VALUE AGRICULTURAL EXPORTS AND THE CONTRIBUTION TO THE RURAL ECONOMY

ARING

ORE THE

SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

APRIL 28, 1994

Serial No. 103–65

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HIGH-VALUE AGRICULTURAL EXPORTS AND THE CONTRIBUTION TO THE RURAL ECONOMY

THURSDAY, APRIL 28, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 1302, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the subcommittee) presiding.

Present: Representative Allard

Staff present: Jan Rovecamp, clerk; Jane Shey, Anita R. Brown, and Lynn Gallagher.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. The subcommittee will come to order.

We have called this hearing to pursue the issue of high-value agricultural exports.

The growth opportunity for U.S. agriculture and rural America in the 21st century clearly lies with our export potential. U.S. agricultural exports generate employment and income in both the farm and farm service sectors, and obviously contributes greatly to our rural development. Processed and consumer-ready foods are the fastest growing portion of the market internationally, representing about three-quarters of world agricultural trade and totalling about $220 billion in 1992 alone.

At the same time, rural development has become a popular discussion topic within the agricultural community. In fact, on this committee alone there has been a dramatic increase in interest in rural development questions in the last 5 or 6 years. I believe with the addition of a number of new members to our committee this year that interest has grown greater, and we appreciate the emphasis that Secretary Espy is now placing on rural development questions down at the Department of Agriculture. I believe that a link needs to be made between developing rural communities and our export market potential. Since the export market is essential to the overall health of agriculture in the United States, it is important that Congress and the Department of Agriculture acknowledge the benefits that high-value exports bring to rural commu-

nities and that we work to implement policies which facilitate continued growth of these markets.

High-value exports are projected to grow to over $25 billion in 1994, pushing the share to 59 percent of total U.S. agricultural exports. At the same time, these exports have generated jobs for an estimated 500,000 full-time workers in our economy.

Our subcommittee is anxious to learn about the projected growth in high-value exports and to understand how domestic and international policy is coordinated at the USDA to maximize the benefits of these growing export markets. I am also pleased to note that the Economic Research Service at the USDA has released a report earlier this week entitled "USDA's Agricultural Trade Multipliers" which outlines the ways economists at the USDA measure the overall effects of agricultural exports. For example, ERS has determined that each $1 in processed farm exports contributes an additional $1.23 to the U.S. economy.

We also welcome the testimony of our witnesses from outside of Washington. They will obviously reflect on their local experiences in developing and maintaining high-value export industries. Perhaps you may also have suggestions for us for policies that Congress can consider during debate on the 1995 farm bill.

If rural development and exporting in a very competitive world market are to become realities, we need a coordinated and focused effort on the part of the Government and the private sector. It is my hope that this morning's hearing will point us in that direction.

With that, I welcome all here this morning. We will begin with a panel from the Department of Agriculture. Mr. Bob Nash, Under Secretary for Small Community and Rural Development, is here as well as Chris Goldthwait, General Sales Manager and Associate Administrator for the Foreign Agricultural Service. We will start in whichever order you prefer. I assume that you have coordinated your thoughts and your testimony. I believe by the body language it means we start with Mr. Nash.

STATEMENT OF BOB NASH, UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. NASH. Thank you very much, Mr. Chairman. We are very happy to be here today. I think that your request for this hearing has helped us in terms of identifying existing as well as potential opportunities for high-value agricultural exports to help rural America.

I would like to just summarize my comments and ask that the printed testimony be submitted for the record.

Mr. PENNY. Without objection, your prepared statement will appear in the record.

Mr. NASH. Thank you. There is nothing more important than the creation of new jobs in rural America. That is where a significant number of people in our country live and it is where many of them want to live and they ought to be afforded an opportunity to do so. There is nothing more important to help that goal than the creation of jobs. We must be in the position to assist these people with new business opportunities, primarily based upon the most important resources that are out there—agricultural commodities and

natural resources that are abundant. There is no reason why value-added products cannot be produced more economically where they are grown than shipped to other areas to be processed. We think this is a major point that needs to be made as it relates to keeping jobs in rural America.

This is one of the reasons that at USDA we have in our proposed reorganization plan put the Alternative Agricultural Research and Commercialization Center together with the Agricultural Cooperative Service and other business programs of USDA so we can have a targeted, focused effort to primarily provide financial assistance to those who want to start farm and nonfarm related businesses in rural America.

We know that Government cannot, and should not, be the primary tool of economic development. That is why we have programs to create partnerships with the private sector, primarily guaranteed programs where we work with the Farm Credit System or with commercial banks. Our 1995 budget has significant increases in several of our programs.

For example, the business and industry program has an increase of almost $900 million where we are actually guaranteeing the loans of commercial banks who, in turn, make loans to businesses who are growing in rural America. We also have requested $125 million, a $25 million increase, for our relending program. This is a smaller program where small- and medium-size businesses have an opportunity to start to create jobs in rural areas. Another program, the rural business enterprise grant program, where a city or a county which might not have a building to lease or rent to a business can get a grant and make it available to a private business. That is going from $42 million to $48 million.

These are some examples of what we are trying to do to strengthen USDA's ability to finance rural businesses and rural areas. The AARC Center and the Cooperative Service again will be in my mission area. We are trying to find new partners for them—Farm Credit System, commercial banks, community development corporations. Again, we can't do it alone. We feel like it is critical to develop partnerships with these other private, nonprofit, for profit, and intermediary organizations.

Nonfarm income is critical to about three-fourths of the small farm producers in rural America. We know that many of them could not survive without that. That is why we want to have a targeted, strong, focused program on nonfarm business development, and that includes the processing of agricultural products.

Let me quickly report on some of the things that we have been doing in the high-value agricultural export area for creating jobs, stimulating economic activity, and developing new industrial markets.

ERS has stated, first of all, that rural employment growth depends more strongly than general employment on U.S. exports. I won't go into any of the statistics on that; Chris will do that a little later even though some of those numbers are in my testimony. Our role in my mission area is to finance projects. It is to finance those business opportunities that come to us and to try to help them. We think this contributes to trade.

Several years ago the Cooperative Service, which is also in my mission area, did a feasibility analysis for a newly formed group of cotton producers in Texas. To make a long story short, the Farmers Home Administration financed it with a B&I loan. It created several hundred jobs. The company got a contract with Levi Strauss and much of the denim being produced there is being exported and the loan has been repaid, which we like.

Other FmHA rural development projects include a Texas seed company specializing in grass and forage, two Maine blueberry producers producing for foreign markets, an ethanol producer in Ohio exports almost $5 million dollars' worth of distillers dried grain, a by-product of the distilling process, a South Carolina company exports tea. The list goes on, but not enough.

The Cooperative Service, which I view as a business, is one of the ways individuals in rural areas can have the benefit of buying and selling just like larger companies in suburban and urban areas. The Cooperative Service is going to be a major part of our business development effort in rural America. My testimony talks about some of the technical assistance they have provided to companies around rural America to help them access export markets.

Let me talk again about the Alternative Agricultural Research and Commercialization Center. Under the reorganization plan, the AARC Center would be associated with rural community and economic development programs. We think this is a linkage that is important. The AARC Center, in its brief history, has invested $9 million matched by $25 million from private partners and funded 23 projects promoting new and environmentally friendly uses of agricultural materials. Much of this activity is in rural America and more of it will be in the future. Of the 23 projects funded, an estimated 1,700 jobs will be created in 3 to 4 years. That is just direct jobs in the businesses we have financed.

Some examples of new uses for agricultural materials include the following:

An environmental remediation technology that uses a powder derived from cotton lint to encapsulate hydrocarbons from an oil spill. The application of this technology to oil spill problems around the world looks promising. Negotiations are currently underway with representatives of Kuwait.

Another firm is producing biodegradable vegetable oil from crambe and rapeseed for use as supplemental transmission oils, cutting oils, or hydraulic fluids. Today, five European car manufacturers now recommend the use of this transmission oil supplement in their vehicles.

There are other examples like this that the AARC Center is financing and promoting. I think there is a tremendous opportunity for almost a new industry for new uses in rural America from nonfeed and nonfood agricultural products.

What we are trying to do is to create linkages between the Agricultural Cooperative Service, the AARC Center, the Foreign Agricultural Service, the Extension Service, and other programs at USDA. What we have to do is to target more of our resources, coordinate more of our resources so that when we look for business opportunities that we try to do them where they are most needed, most economical, and most feasible. Many times when you are talk-

ing about new industrial uses, rural America is where the opportunity lies. We think that it makes more sense to try to help people live comfortably where they are as opposed to forcing them to move to suburban or urban areas with no skills—many times—no jobs, no housing. USDA is committed to rural America.

Mr. Chairman, I think you will see that we will continue to try to exploit the export market to provide jobs to people and businesses who are located in rural America. I would be happy to answer any questions you wish. Thank you.

[The prepared statement of Mr. Nash appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Nash.

Chris, we will hear from you next and then proceed with questions.

STATEMENT OF CHRISTOPHER E. GOLDTHWAIT, GENERAL SALES MANAGER AND ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY SUZANNE HALE, DIRECTOR, EXPORT SERVICES DIVISION

Mr. GOLDTHWAIT. Thank you, Mr. Chairman. It is, as always, a pleasure for me to come before the subcommittee. With your permission, I will ask that my full statement be entered into the record and I will summarize very briefly the key points from it.

Mr. PENNY. Without objection, your prepared statement will appear in the record.

Mr. GOLDTHWAIT. There are three main areas that I cover in my statement and I will go into a little bit of detail about each of them. First of all, the critical role of high-value exports and the efforts we are making to promote them; second, our current efforts to reach out to small and medium firms, including those in rural areas; and third, some things that are coming up on the horizon that we can undertake as new initiatives.

I think it is very clear to everyone the key role high-value products plays in agricultural trade today. This is the most quickly growing segment of trade and today constitutes roughly two-thirds of all trade, that includes both the intermediate or processed commodities as well as the consumer-ready commodities. This area of U.S. exports has also been growing and at roughly $24 billion it now constitutes just over one-half of all of U.S. agricultural exports which is somewhat of a shift over the past decade. And of course it is self-evident that exports of these products to create not only jobs on-farm but also jobs off-farm.

The Department and the Foreign Agricultural Service have quite a number of activities that fit together and together support the growth of high-value exports. We can start with perhaps one of the lesser known benefits from the recent Uruguay Round agreement. Because that agreement places limits on all subsidies, it will place limits on processing subsidies paid by the European Union which indeed give their high-value products an edge in many of the markets where we are competing with them which should help to make progress in terms of market share against the European Union which is today the largest exporter of high-value products.

And of course within the Foreign Agricultural Service, we undertake a continuing effort through our commodity analysis to identify the best opportunities both in terms of countries and within countries in terms of products for high-value products as well as the bulk commodities. For the high-value products in our analysis the countries of Asia, which are growing very rapidly and just reaching that level of income where consumers are looking for variety in their foods, is perhaps the best prospect along with countries in our own hemisphere like Mexico.

Productwise, just to give you one example, in Japan, which is an established market for us but again one with considerable potential for these products, beef, fruits, and convenience foods offer the best opportunities.

The Foreign Agricultural Service also undertakes considerable and successful outreach efforts to go into rural areas and to reach small- and medium-size businesses and help them become involved in the export process. The best example of our efforts in this regard is with respect to the market promotion program where we have, working through the State regional trade groups, undertaken educational seminars specifically targeting small and economically disadvantaged businesses. In 1993, for example, we held 40 of these seminars and reached a total of 1,200 people representing companies in 38 different States. Of course, as you are aware, in the recent revisions to the market promotion program, we have included a prioritization for small- and medium-size firms in the branded promotion efforts under that program.

While I believe these efforts are significant and successful, as we look ahead there are clearly other things that we can do as well. Most immediately on the horizon is the retreat that Secretary Espy has organized for senior Department officials where, because it is not a decision meeting but simply a session to examine for various options, we will focus on five specific themes and two of them are the key points that are highlighted in this hearing—how we do better with respect to rural development, and how we do better with respect to export growth which is a key element in supporting farm income.

Another activity that we will be undertaking in the course of this summer is the update of our long-term agricultural trade strategy. As we did in the development of the original strategy, we will draw together representatives of all of the agencies within the Department that have some interest in and through their various activities some impact on our export efforts. I can envision that one conclusion of that effort might well be the need for a permanent working group to focus on key issues like those you are posing in this hearing—the linkage between our export efforts and rural development.

As we look a little further ahead, we will be reviewing all of our various programs in preparation for the upcoming farm bill. There are some very specific parts of that legislation which I think have great potential for helping our efforts at rural development. To take just one example, I might pick the credit guarantee for facilities program, part of the emerging democracies portion of that legislation. We have had a great deal of difficulty in implementing that in its current form. This is fundamentally because at the time

we developed that legislation in concert with this committee in the 1990 farm bill I don't believe either side realized the difficulty of taking a program like GSM–102 which is fundamentally designed to move commodities and use it as a mechanism for moving industrial products. But if we make some revisions in that legislation, we can have sort of a one-stop shopping opportunity for businesses in rural areas. We can offer the credit guarantees both for the commodities and for the development of infrastructure and facilities that will move those commodities and create increased demand for them abroad. We will be able to offer the assistance to both our producers and our processors in rural areas to go into a foreign market with the support of our credit.

There are other ways in which we can look at expanding our various outreach activities. For example, we have an opportunity to use some of USDA's field offices as additional sites for, on a test basis, holding export seminars in rural areas. We can send our experienced staff out and see if by conducting the seminars in some of the county offices, for example, that ASCS has we are reaching a different audience than that we are already reaching through our operations with the State regional trade groups. If, indeed, we find that is successful in reaching new firms, different clients, then we can look at what it would take to implement such a program on a more ongoing basis and a larger scale.

These are just a few of the ideas that we're thinking about as we look forward to ways in which we can link these very important goals of the Department and, clearly, very important goals of this committee.

I thank you very much for your time and attention.

[The prepared statement of Mr. Goldthwait appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Chris.

Mr. Nash, you talked a little bit about business and industry loan guarantees. Could you refresh my memory as to the criteria that governs the program.

Mr. NASH. Yes. The program is primarily a public-private partnership where a commercial bank will make a loan of up to $10 million to a private business. The Rural Development Administration will guarantee up to 90 percent of that loan if it is less than $2 million. It ranges in guaranteeing from up to 90 percent down to 70 percent of the loan, but the maximum amount is $10 million. It is a program that has a relatively low budget impact. It works very well. The commercial bankers are familiar with the business in the area. We see a tremendous potential in that program. But that is generally how the business and industry program operates.

Mr. PENNY. Do we restrict those loans to certain types of enterprises?

Mr. NASH. No. It is generally manufacturing plants but it doesn't have to be manufacturing plants. It can be agricultural processors; it can be even service-oriented business. So we do not restrict it much at all, Mr. Chairman.

Mr. PENNY. Is there criteria based on the size of the community?

Mr. NASH. Yes. I think we cannot do a B&I loan in a community larger than 50,000. I really don't have numbers on where the ma-

jority of them are located, but a lot of them I know are in communities under 25,000.

Mr. PENNY. Do you think it might make sense for us to focus that on value-added products?

Mr. NASH. I think that we can have a targeted focus on value-added. That program for years only had I think about $100 to $115 million in it. In 1995 we are proposing over $1 billion, I believe it is $1.2 billion. In 1994, it was $249 million.

I believe that given the volume of dollars we have in there we can have a special targeted effort for value-added products and it will not be a problem at all. In fact, we know we have to work hard to make sure that those loan dollars get out. I think the answer is yes, is what I am trying to say. Yes, we can target and focus not all of it but a significant portion of it on those kinds of industries.

Mr. PENNY. You also mentioned in your testimony that perhaps we could do more to coordinate with Farm Credit Services. What are the limitations at present? The B&I loans cannot be used in cooperation with Farm Credit Services loans, is that the case now? Can you only match up a B&I guarantee with private sector?

Mr. NASH. I think right now it is only with private sector, only commercial banks. The Farm Credit System, as you know, is interested in broadening and expanding their lending purview. Right now the B&I program primarily works with commercial lenders.

Mr. PENNY. In your testimony when you suggested greater coordination with Farm Credit Services, were you talking about expanding the B&I program in that area; in other words, giving Farm Credit Services authority to get into these other activities?

Mr. NASH. Yes, sir. That is one item. We have had several discussions with them about their interest in other programs and that is one area of discussion that we have had at the table. The answer is, yes. We are trying to do that with a number of commercial banks, other kinds of financial intermediaries to try to develop more partnerships because we don't believe we can do it all by ourselves.

Mr. PENNY. The Agricultural Cooperative Service provides only technical assistance?

Mr. NASH. Yes, sir. They don't have dollars, they basically have people who go out and help with anything from an existing co-op to expand to a new fledgling group that is trying to get themselves organized to develop a cooperative. But they do not have dollars. They have maybe like $400,000 that they make available to colleges and universities who are also involved, but other than that it is mostly people and technical.

Mr. PENNY. It seems to me a lot of our economic growth potential in rural communities could be accomplished through the cooperative model for a variety of reasons. One is farmers looking for new markets oftentimes will use the cooperative model in order to join together, merge resources, dedicate a certain percent of their crop to a manufacturing plant or processing plant and thereby be able to proceed with a project that an individual entrepreneur might have great difficulty getting financing for. It also occurs to me that going the cooperative route opens up a potential for financing that might be available through the Farm Credit Services or the REA

or other cooperatives if we were to grant them a greater authority to provide loans in this area.

What is your sense of it? I am just looking at my part of the country where we don't have, in many cases, large banking establishments in these rural towns which means it is more difficult to attract private sector financing. It strikes me that maybe much of our rural development would be tied to the establishment, the creation of cooperatives and then creating authorities for our co-op lenders to become more involved in financing cooperative processing plants.

Mr. NASH. Mr. Chairman, I am a very strong supporter of a cooperative movement in this country. I think a large part of the success we have already had in rural America is because of strong, competent cooperatives. I do think a lot more needs to be done in a lot more geographical areas to help individuals to create cooperatives to market, to buy, to sell, to borrow, to loan. This is one of the reasons we have in our proposed reorganization put the Agricultural Cooperative Service in with the other business programs.

I would like to see us do a lot more in terms of working with smaller to medium-size fledgling existing cooperative groups and potential cooperative groups. I view it as a business and a way to strengthen the hand of people who live in rural America as opposed to them trying to do it on their own.

Mr. PENNY. We would certainly be interested in any recommendations the Department might have about enhancing our ability to help cooperatives create jobs in our rural communities. I am encouraged by the reorganization plan and the attempt to bring many of these resources together under one roof. I think that is helpful. But I think we all understand that there are some changes in law that are going to be required if we are going to provide a greater emphasis in this area. One you referred to earlier, which is simply giving the Farm Credit System more authority to be engaged in these activities. Another might be to broaden the authority we have already granted the REA's to become involved in this area.

I am convinced that while we want to undertake cooperative ventures with private lenders to the degree possible, that in many rural communities private lender support just isn't going to be there in any large fashion. For that reason, we need to find those resources in other ways and I think our cooperative financial institutions give us a pool of resources that we can bring to bear on these rural development concerns.

Chris, you talked about the growth in exports for value-added commodities. I believe you testified that we have increased the U.S. share. Statistics can always be a bit confusing. The implication of your testimony was that we were keeping pace with the growth in value-added exports as compared to other countries. That the United States, recognizing this trend toward value-added exports, has been securing its fair share of that market. Did I misread your testimony?

Mr. GOLDTHWAIT. No. That is basically correct. The value-added exports are now a higher portion of our total exports.

Mr. PENNY. In dollar terms?

Mr. GOLDTHWAIT. In dollar terms. We have been making considerable headway in terms of our share of the world market for those products. However, that is starting from a relatively low base. I think today we have about 13 or 14 percent of the market for, say, the consumer-ready products. That is up from maybe 8 percent if you go back 10 or 12 years.

Mr. PENNY. Are we setting any goals here? What do we consider our fair share? If you look at the totality of the agricultural market out there and America's agricultural production levels compared to other countries, is there a goal that we are shooting for?

Mr. GOLDTHWAIT. With respect to these particular products, let me focus for a moment again on the consumer-ready side because that is the most rapidly increasing portion within high-value. The European Union now is the largest provider of these products with a market share, year to year, of a little more or a little less than 20 percent.

Mr. PENNY. Is that because a lot of that trade is between countries in Europe?

Mr. GOLDTHWAIT. Some of it is between countries in Europe, but even if you go into some of the markets that I've recently visited in South and Southeast Asia you will find that they have a higher share of that market than we do.

Fundamentally, we are more efficient processors of many of the consumer-ready products so we think that we should be the lead supplier of these products. So our near- to medium-term goal is to become the largest supplier in world markets of these particular kinds of products.

Mr. PENNY. If we are the most cost-effective processor, what are the impediments or the factors that have resulted in our inability to move more value-added products overseas?

Mr. GOLDTHWAIT. There are a number of factors. In my testimony, I referred to the role of processing subsidies which are extremely difficult to identify and to target but they play a big role at various stages of processing in the European countries. That is a factor that gives them in some cases an offset to our efficiency. In many countries, however, there are also traditional historical linkages between local firms and firms in Western Europe. For example, you have in Hong Kong strong linkages with British firms. I was recently in Indonesia where the linkages with Dutch firms are still very strong. This is again something that we have to try to match in terms of exposing our products to the consumers in these various countries.

Mr. PENNY. What have we done in terms of GSM credits for value-added sales?

Mr. GOLDTHWAIT. We are always looking for opportunities to use the GSM program for high-value products. As you know, any product which is 100 percent United States in its origin qualifies for support under GSM–102. What that tends to mean is that we use the program more for the intermediate than for some of the consumer-ready products where we cannot be sure that there is not content of a foreign origin. For example, sugar is very common as an ingredient in consumer-ready products and often times we can't know if that sugar is United States or foreign.

But we have been expanding the use of the credit guarantee program generally in a number of these key countries, for example, I pick again Indonesia. We have an extremely wide product list in the Mexican market which is one of the most quickly growing for these products as well as our largest country for the GSM–102 program. So we are trying to use the program as much as we can to support these products. There is plenty of credit availability under the program for both the high-value and the bulk commodities.

Mr. PENNY. Is the content requirement the greatest restriction to expanding the use of this program in the value-added or high-value area? We better stick with value-added because high-value could mean fruits and vegetables.

Mr. GOLDTHWAIT. It is certainly an important constraint. The other key constraint is simply the fact that in our process we also are very cognizant of country risk. That simply says that for some countries we cannot make unlimited quantities of the credit guarantees available. But the foreign content is clearly an important constraint with respect to these commodities.

Mr. PENNY. It is my understanding that CoBank is the only American lender that is involved with GSM stuff. Is that accurate?

Mr. GOLDTHWAIT. That is not entirely accurate. All of the banks that are involved in GSM–102 on the U.S. side are banks registered to do business in the United States. They are in that sense American banks but many of them are owned, again, by West European countries. There are others, however, which are involved in the program that are headquartered-owned, if you will, in the United States. Some of the money center banks in New York, for example, have participation in the program.

Mr. PENNY. Should we view this with alarm or concern that we don't have a broader range of U.S. lenders that are involved in the program, and is there an underlying reason that causes these private lenders to hold back?

Mr. GOLDTHWAIT. Certainly, we would like for more American-owned banks to be participants in the program. We are always anxious to have a broader base of participation in the program with respect to the clients we can serve in it. There are, as I understand it, various structural differences between United States banking law and banking law and the requirements for capital in various West European countries. In point of fact, the business that is done under GSM–102 is low margin business. This is one of the advantages to the program from the standpoint of the buyer, because low interest rates make the program more attractive to the buyer in foreign countries. But the structural differences, as I understand it, make it less attractive for banks which must meet American capital and asset requirements to participate in this very low margin business than is the case for some European banks. I am sure that Mr. Bovee might want to comment on that question as well in the course of the later testimony.

Mr. PENNY. Thank you, Chris.

Mr. Allard, for an opening statement.

OPENING STATEMENT OF HON. WAYNE ALLARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. ALLARD. Thank you, Mr. Chairman. I would like to apologize to the chairman and witnesses for being a little bit late this morning. I would like to make a few comments for the record and then pose a few questions for the witnesses.

I thank you for being here this morning. It is essential that U.S. policies promote what our farmers do best—provide food and fiber that are processed, packaged, shipped, and marketed at reasonable prices to consumers around the world. Increasing value-added exports is not only an agricultural issue, it is also a jobs issue. By using our export programs aggressively, we will create jobs for American workers now while increasing markets for American farmers well into the future.

Additionally, tax revenues and the national gross domestic product will be increased. For example, the Economic Research Service at USDA estimates that the export of $1 million of wheat generates a total of $5.8 million in economic activity. On the other hand, if $1 million in flour is exported, the economic activity generated is more than doubled to $14 million. I would emphasis that this can be done without harming our rural leadership in traditional markets for raw, bulk, commodities. Export-related jobs, including those in agriculture that is related to industries, are essential to the economic health of the United States.

Now, getting to the question. The European Union has 21 percent of the over $150 billion world high-value products market while the United States has 15 percent. These figures exclude the trade in high-value products within the European Union. The EU, or European Union, is the world's largest exporter of high-value products; 89 percent of its exports are high-value. I cite these numbers to emphasis the importance of expanding high-value product markets for the U.S. farmer. We must do more if we are to secure greater share of this valuable market. Can the USDA tell the subcommittee what steps it can take to acquire a greater share of the processed and high-value market?

Mr. NASH. May I start off just with a quick response?

Mr. ALLARD. Go ahead, Mr. Nash.

Mr. NASH. Thank you. One of the things that I think we have to do is help those farmers figure out new and different ways to add value where they are. It doesn't make sense for the 90 percent of value of a product when it reaches the ultimate destination to be made outside of where it is grown and produced. One of the things I think we can do on my end of the house which is financing facilities—land, buildings, equipment—is to target and focus more of that in areas where farmers are. I think that is our job. When farmers get together and say we have a facility we want to put in place to add more value to products we produce, we need to do more by providing the dollars to finance that. That is one response that I have to you and I am convinced we can do a lot more.

Mr. ALLARD. Are you talking about farmers or people in agribusiness that aren't necessarily farmers?

Mr. NASH. To me, when I say a farmer, a farmer may have 100 or 200 acres of land, his wife or her husband, son, or daughter may

work in the community. That farm family is what I am referring to when I say farmer, not just the people who work directly in production agriculture on the farm but ones who are associated with the farm family.

Mr. ALLARD. OK.

Mr. GOLDTHWAIT. Congressman Allard, the quick answer to your question is that we are making a concerted effort to use all of the various export tools that we have available to us to support the promotion of the high-value products in particular markets in a coordinated, concerted way.

But if I can go beyond that, I would point out that we are also making efforts to determine whether or not there are additional tools or additional ways that we have not traditionally used our current tools that we could use or develop as new marketing tools. For example, one conclusion I came back with from a recent visit to the Mexican market is that there the thing that we could do to stimulate the demand for U.S. products most quickly was to help somehow with the growth of the distributors within the Mexican markets. That is a key area where, for example, the facilities credit guarantees that I referred to in my testimony could be instrumental in supplying those importers credit to purchase American equipment for building their distribution infrastructure as well as credit for purchasing the commodities that they need to have from us. That is one example.

I might refer again to some work that has been done by both myself and Ms. Hale, who is with me here, to look at whether there are ways we could provide our credit guarantees in ways that are a little different from what we do today. For example, make the credit available directly either to U.S. suppliers so that they can augment the suppliers credit that they are providing, or to make the credit available to importers in the country of import in smaller amounts perhaps and in ways that are somewhat different from the traditional letter of credit mechanism used under GSM–102. Again, that is the kind of thing that requires a lot of thought and a lot of development. But the basic point there is that there are both United States suppliers and importers in some key countries like Mexico, like the emerging private sector in Russia who could in fact use more credit for the purchase of United States products than they currently have access to under the existing structures.

So we are trying to not only use all of the tools that we currently have, but we are also trying to think innovatively about some new and different things that we could be doing. I think I'll stop there if I might.

Mr. ALLARD. Thank you for your response.

Recently, the USDA Foreign Agricultural Service listed the top 10 markets as the best prospects for U.S. consumer food exports over the next 10 years. That included Japan, Canada, Mexico, Hong Kong, Taiwan, South Korea, European Union, Asian countries, Thailand, Indonesia, the Philippines, Malaysia, Saudi Arabia, and the gulf States in Australia. In addition, China was mentioned as a country with the potential opportunities for consumer food exports. What can you tell us about the status of Russia and other countries in Eastern Europe? Russia is one of the largest markets in the world for United States agriculture. Should we be worried

about losing our share of that market to other countries, especially for value-added products? Perhaps maybe you can provide examples of USDA actions to help the U.S. farmers secure additional markets in this area of the world.

Mr. GOLDTHWAIT. The situation in Russia is that we are facing a market which is shrinking quite rapidly. Our traditional market in Russia has been for bulk commodities—feed grains, soybean, soybean meal, and wheat. The Russian consumers and buyers simply do not have the foreign exchange to purchase large quantities of those commodities. As prices are adjusting and reaching real market levels within Russia, the demand is actually declining for those commodities, especially for those that go into livestock feeding. Herd numbers in Russia are shrinking very quickly.

However, we are in touch with the Russians continually periodically about the prospects for purchasing these commodities. I was in Russia about a month ago talking with them about this. When we think there is demand we will use the various tools we have to meet the demand for these bulk commodities.

Let me turn for a moment, however, to the high-value commodities. The high-value market in Russia is one which, surprisingly, is growing very quickly and United States exports of various products to this market—snack foods, processed meat products, to name just a couple—are booming. Again, during that visit to Russia, I went to a local supermarket, one of the new Western style supermarkets that is opening there, and I saw American ice cream, I saw American can goods, a whole host of products of a high-value and consumer-oriented nature that are coming out of the United States into that market.

We are looking very carefully now at whether, in the absence of any demand for official credit at this moment, there would be the possibility of instituting a credit guarantee program purely targeted at the private sector in Russia. We have already done this in one or two of the other countries of Eastern Europe in the former Soviet Union. If our analysis of Russian banks turns out to yield results that will permit us to introduce a credit guarantee program based on the strength of those banks, some of which have ownership components from American banks or from West European banks, then we will move forward with a credit guarantee program aimed at the Russian private sector.

So these are some of the developments that we are watching very carefully there and some of the things that we are doing to try to help with the growth. I might mention our MPP program where a number of companies, a number of promotion organizations are working in those countries. I might also point out that we're going to be holding a trade fair in the autumn in St. Petersburg and Moscow both.

Mr. ALLARD. You mean the USDA is holding the trade fair or are you just putting together all the exporters of this country that would be holding a trade fair?

Mr. GOLDTHWAIT. We are organizing it. Let me ask Ms. Hale, who is actually putting our participation together, to comment.

Ms. HALE. We will be working jointly with four regional associations of State departments of agriculture. About 20 companies will

be going. They will be spending 2 days in Moscow and 2 days in St. Petersburg.

Mr. ALLARD. And this is on high-value?

Ms. HALE. Yes, sir.

Mr. ALLARD. Thank you.

One of the reasons I believe it is essential to expand processed and high-value exports is because of the effect on our own economy here at home. When meat is processed into flour, farmers, millers, and processors, and others especially in rural areas benefit. Can you quantify this multiplier effect? I used some figures; do you agree with the figures we used or do you have some different figures? And what is the effect on expanded jobs, revenues, and expansion of the gross domestic product?

Mr. GOLDTHWAIT. I would agree generally with the figures which were quoted earlier which came out of the recent ERS study.

Mr. ALLARD. Now please explain the procedures used by the USDA to calculate the benefits and costs of increasing the export of processed and high-value products.

Mr. GOLDTHWAIT. Again, I believe the methodology is rather complex and it is explained in the study which was published earlier this week. I unfortunately can't comment in a great deal of depth about it.

Mr. ALLARD. Would you make sure that we have a copy of that in my office. I would appreciate having that, if you would please.

Mr. GOLDTHWAIT. Yes.

[The material follows:]

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USDA's Agricultural Trade Multipliers

A Primer

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Because exports are an important and growing market for farm products, we need ways to determine their effect on the U.S. economy. This bulletin discusses ways the economists of the U.S. Department of Agriculture measure the overall effects of agricultural exports. In a highly interrelated economy like that of the United States, many more people benefit from agricultural exports than just farmers and exporters and their employees. Firms that provide materials and services used by farmers and others for producing the export goods also find their businesses growing. Businesses selling consumer goods find their customers spend more income when trade expands. And governments find the higher level of economic activity raises tax revenue, allowing governments to expand services, reduce taxes, or reduce deficits.

We are frequently asked by government officials, trade associations, and others to estimate the income and employment effects of agricultural exports on the U.S. economy. In this report, we use a question and answer format to present basic information about how we make those estimates and how the results should be interpreted. These are questions frequently asked by our data users.

If the benefits from agricultural exports get dispersed so far from the original sector, is there any way to measure these benefits to the whole economy?

Yes, one can use an economic technique called input-output (I/O) analysis to calculate what we call a trade multiplier. The core of the I/O analysis is a large accounting matrix (an input-output table) that accounts for all the transactions (purchases and sales) between the producing sectors (agriculture, manufacturing, trade, etc.) of the economy (the shaded area of fig. 1). For example, farmers purchase fertilizer and tractor parts from manufacturers and sell farm products to food processing plants, feed mills, or other nonfarm businesses. The I/O table includes these sectors' sales to final demand, that is sales to domestic households, to domestic private investment, to the various levels of government, and to foreign customers (last four columns of fig. 1). The table also includes the producing sectors' payment of wages, salaries, rents, interest, profits, and indirect business taxes. Economists refer to these factors as the value added to the basic commodity (last three rows of fig. 1).

I/O analysis uses the information from the table to take a snapshot of the interrelationships between the sectors of an economy. The most recent national-level I/O table was constructed by the U.S. Department of Commerce for calendar year 1982. Analysts assume that this set of interrelationships doesn't change dramatically over time. Thus, the I/O analyst can perform a series of "what if" experiments about how changes in final demand, such as an increase in exports, affect the national, regional, or local economy.

Okay, but how does this give a trade multiplier?

One of the components of final demand is exports. The analyst takes either a level of exports or a change in exports (either is acceptable) and performs the "what if" experiments. Depending on the supplemental information in the I/O analysis, the result of the "what if" experiment is dollars of economic activity, jobs, personal income, gross domestic product, or tax revenues. Dividing these results by the value of exports (for example, millions of dollars) yields a trade multiplier, economic activity per $1 million of exports in this case. We can also determine the number of jobs required to produce the output that goes for export by dividing the number of jobs by the total value of exports to arrive at the multiplier for jobs per $1 million of exports.

Figure 1

Input-output transaction table

Item	Production: Agriculture	Mining	Construction	Manufacturing	Trade	Transportation	Services	Other	Final demand: Personal consumption expenditures	Gross private domestic investment	Net exports of goods and services	Government purchases of goods and services
Producers:												
Agriculture												
Mining												
Construction												
Manufacturing												
Trade												
Transportation												
Services												
Other												
Value added:												
Employee compensation												
Profit type income and capital consumption allowances									Gross domestic product			
Indirect business taxes												

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 1979.

Example: In 1992, $42.9 billion of agricultural exports required 902,300 workers throughout the economy. In this case, the 1992 agricultural export employment multiplier is 902,300/$42,900 million or 21.0 workers per $1 million of exports.

Are there different types of I/O-based trade multipliers? If so, why do they differ?

Yes, there is more than one type of trade multiplier. Trade multipliers differ because of differing assumptions about the nature of the adjustment to the change in export demand. For example, the number of jobs supported by $1 million of wheat exports is 23.8, 26.0, 61.8, or 137.6 depending on the assumptions about the nature of the adjustment to the change in export demand.

When would one use the smaller estimates?

The 23.8 and 26.0 multipliers come from an "open" I/O model that depicts the sales and purchases between all goods and services sectors of the economy, sales to final demand (consumption, investment, government, and net exports) and the purchases of land, labor, and capital services. These are called direct and indirect effects of economic activity generated by exports.

An open model does not depict the additional personal consumption resulting from increased household income. The increased household income results from jobs added by producers to support the higher level of exports. This income, in turn, generates more spending which necessitates more production.

The "open" model multipliers are often used to describe what has happened, or the interrelatedness of sectors in a base period. Since the analysis does not include new economic activity, it is not appropriate to include new spending from households.

The open model multipliers are used each year in the USDA periodical *Foreign Agricultural Trade of the United States* (*FATUS*) in an article that reports estimates of the output, employment, and income associated with the previous year's agricultural exports. In this case, the export activity has already occurred. The I/O model provides estimates of the output, income, and employment from each sector necessary to support the amount of agricultural trade. These multipliers include both the economic activity occurring within the exporting sector, called direct effects, and the supporting economic activity from other sectors generated by the exporting activity, called indirect effects. Table 1 presents "open" model multipliers for selected export commodities. For example, a multiplier of 25.2 for food grains means that producing, harvesting, and transporting the food grain to the port requires 25.2 workers in the economy for each million dollars (1982 prices) of food grain exports. Similarly, for every dollar of food grain exports another 89 cents of economic activity was generated across the domestic economy, an output multiplier of 1.89. For cotton an additional $1.22 was generated for every dollar of export sales (table 1, column 1). Overall, a million dollars of agricultural export sales in 1992 required 21.0 workers and each dollar of agricultural export sales generated an additional $1.44 of economic activity in the national economy.

But commodity prices change from year to year. Wouldn't that affect the size of the multiplier?

Yes, that is why one should use value-based employment multipliers (employment per million dollars) with caution. Export volume influences employment more than export value. A 20-percent change in the price of wheat will have little effect on the employment needed to move a million bushels of wheat from the farm to the port. But it could have a large effect on the employment required per million dollars of wheat exports. The employment multiplier for exporting a million bushels of wheat is about 100 workers. At $3 a bushel, the employment multiplier per million dollars of wheat would be 100/($3 x 1 million bushels) or 33. At $3.60 per bushel, the employment multiplier per million dollars of wheat would be 100/($3.60 x 1 million bushels) or 28. Therefore, if given a choice, one should use employment multipliers in volume terms.

Is there a way to adjust the data for price changes so that the model results reflect changes in volume?

Yes, but it is imperfect. If the analyst was concerned only with the major export commodities or had reliable volume data, there wouldn't be a need to adjust for price changes. The analyst could use the available volume data. The need to adjust for price change arises because so many separate commodities are traded that the only meaningful way to report aggregate trade data is in value terms. When using individual prices is not practical, economists use price indexes to adjust a trade value to a base year's prices. The price index is an average of several representative prices for the commodity group for which the price adjustment is being made. The weight given each representative commodity is fixed at the base year's level. Thus, when the relative importance of a commodity changes in the mix

Table 1–Gross business and employment multipliers of exports from selected farm and food processing sectors

Sector	Value of output/$1 of exports	Jobs/$1 million of exports
	1982 dollars	
Cotton	2.2215	28.8
Food grains	1.8932	25.2
Wheat	1.8820	26.0
Feed crops	1.9941	25.7
Corn	1.9432	26.5
Oil crops	1.7315	22.7
Soybeans	1.7147	23.3
Meat and poultry processing	3.7298	37.0
Grain milling	2.8091	25.9
Fats and oil mills	2.9720	26.4
Tobacco manufacturers	1.9054	19.9
	1992 dollars	
All agricultural exports, 1992[1]	2.44	21.0

[1]In calendar year 1992, $42.9 billion of agricultural exports required the efforts of an estimated 902,000 workers and generated $104 6 billion of business activity in the U.S. economy. These employment estimates reflect adjustments for changes in labor productivity

of agricultural commodities traded, the price adjustment from a fixed weight price index may adjust imperfectly for actual prices.

Wouldn't the increase in labor productivity since 1982 affect the number of jobs associated with exports?

Yes, table 2 presents some examples. Using 1982 economic and employment conditions, we estimate that the efforts of 74.6 workers in the economy were required per million bushels of corn exported. However, economywide labor productivity increased 11.7 percent between 1982 and 1993. Therefore, 66.8 workers could do in 1992 what 74.6 workers in 1982 did. Using 1992 economic and employment conditions, therefore, we estimate the efforts of 66.8 workers in the economy were required per million bushels of corn exported.

OK, when available, one should use volume based employment multipliers. But does $1 million of exports measured at the port, such as New Orleans, have the same multiplier as $1 million of exports measured at the farm, say, in Iowa?

No, it matters at which point between farm and the port the analyst expects to apply the multiplier. The multipliers in table 1 are port value multipliers. Port value multipliers apply to the value of the commodity at the port. For raw agricultural commodities, the port value is the farmgate value plus any other costs--such as transportation charges, storage and handling fees, and brokerage fees--necessary to get the commodity from the farm to the port. Some analysts use farmgate or producer value multipliers.

Table 3 presents producer value multipliers for 19 farm commodity groups, 44 food processing groups, and 22 other selected sector groupings. The port value multipliers are a weighted average of the producer value multipliers of the producing sector, the domestic trade sector, and the transportation sector. The weights used are the shares of the port value accounted for by producer value, wholesale trade charges, and transportation charges. In our wheat export multipliers example, the farm value multiplier is 23.8 (table 3) and the port value multiplier is 26.0 jobs per $1 million of exports (table 1). The 2.2 jobs difference represents the larger labor requirements of the trade and transportation industries.

Okay, so open model multipliers apply to situations where you want to describe the effects of past activity. What if we want to analyze *new and permanent* increases in exports? Do we calculate the multiplier differently?

Yes. The "open" model multiplier identifies income and employment associated with a particular level of exports, but it does not consider the additional activity generated in the economy when the income from this additional employment is spent. To capture these effects, we use a "household endogenous" (or "closed") I/O model. The part of the value-added rows earned directly by households (employee compensation, 77 percent of household income in 1982) and the share of the column (personal consumption expenditures) associated with households in figure 1 are treated in the model as if they were part of the producing sector (such as agriculture and manufacturing). The resulting multipliers then include the direct, indirect, *and induced* (the additional activity generated from the new income spent in the economy) effects of agricultural exports.

The second column of table 3 presents "household endogenous" I/O model employment multipliers. In our example of wheat export employment multipliers the 61.8 is the "closed" multiplier. If we consider the additional economic activity generated as consumers

Table 2–Civilian jobs per million units of exports[1]

Commodity	1982 productivity level	1992 productivity level
	Jobs per 1 million bushels	
Wheat	112.3	100.5
Soybeans	150.8	135.0
Rice	156.9	140.5
Flaxseed	117.9	105.6
Feed grains:		
Corn	74.6	66.8
Grain sorghum	75.1	67.3
Barley	68.0	60.9
Oats	51.3	46.0
	Jobs per 1 million bales	
Cotton	8,810.7	7,887.8

[1]Labor productivity increased 11.7 percent between 1982 and 1992

spend new incomes, $1 million of additional wheat exports generates jobs economywide for 61.8 workers.

A potential use of these multipliers involves analyzing the Export Enhancement Program (EEP). Assume EEP expanded wheat exports by $1 million, but half of these expanded exports came from current production and half from expanded wheat production. Then the expected effects upon economic activity (0.5 x 61.8 x $1 million x a price adjustment from 1982 values to the current price if necessary) is 30.9 workers.

Does the form of the export matter? Do processed agricultural products have a larger trade multiplier than raw agricultural commodity exports?

There is a lot of interest in this question, and it is an important question for our national trade policy. The policy question is, "If markets for processed agricultural products exist abroad, why doesn't the United States capture more of the potential jobs and related economic activity that domestic processing offers?"

Analyzing this question requires addressing related questions. First, what are the actual market possibilities for processed products, and what are the institutional or trade rigidities that would work against efforts to increase processed product exports? Second, how large are the domestic economic and employment effects involved in the tradeoff between exporting processed products instead of raw agricultural products? For now, we address only the latter question.

Table 3 presents both open and closed employment multipliers for both raw and processed agricultural products. However, directly comparing raw and related processed agricultural product multipliers does not answer the question. From table 3, we see that $1 million of wheat exports supports 62 jobs throughout the economy, and $1 million of flour exports supports 60 jobs. But the mix of supporting goods and services within the two bundles differ. A more meaningful comparison is the jobs related to the export of $1 million of wheat versus the equivalent amount of wheat exported as flour.

The processed export product multipliers in table 4 are examples of this type of multiplier. These multipliers are presented in pairs. One multiplier presents the direct, indirect, and induced output effects of exporting a raw agricultural product. The companion multiplier presents the direct, indirect, and induced output effects of exporting the same quantity of raw agricultural product in a processed form. For example, 138 jobs are generated for $1 million of wheat exported as wheat flour (this is the 137.6 multiplier from our range of multipliers). A number of conditions must be met before the full multiplier effects are realized (Schluter and Edmondson, 1989). Nonetheless, these comparisons have been used by some groups as an indication of whether the form of the exports matters to income and employment levels in the economy

What has to happen to realize these full multiplier effects?

Perhaps the most critical assumption is that newly employed resources in the processing industries were formerly unemployed. If they were not, then a correct accounting of the processing activity's addition to the Nation's income and product would require subtracting the income and product the resources produced in their previous use from the increases estimated here.

Several other assumptions underlie these estimates. First, the relationships measured in the 1982 national I/O table describe the current economy, and these relationships do not vary as production rises or falls. Second, because the I/O model used to estimate the multiplier has the household sector endogenous—that is, it considers the consumption made possible by the additional household income generated by the expansion of exports—the model assumes that households consume a fixed basket of goods and services. In that fixed basket, households spend about 80 percent of each new dollar of income on consumption items, and the household spends the new dollar of income for the same items as it bought with the old income. This consumption spending, in turn, stimulates another round of new production.

Table 3–Producer value employment multipliers using open and closed I/O models, 1982

Industry sector	Open model multipliers	Closed model multipliers
	Jobs per $1 million in exports	
Dairy	38.7	75.3
Poultry	51.7	92.0
Meat animals	36.7	70.1
Miscellaneous livestock	110.4	138.1
Cotton	34.6	70.6
Wheat	23.8	61.8
Rice	23.8	61.9
Corn	22.8	56.8
Soybeans	20.9	58.3
Other feed crops	22.5	55.7
Grass seeds	17.7	63.6
Tobacco	48.9	81.7
Fruits	60.0	96.7
Tree nuts	56.6	98.1
Vegetables	35.0	77.3
Sugar crops	33.3	71.9
Miscellaneous crops	32.4	76.7
Oil crops	21.1	59.4
Greenhouse/nursery/forestry	30.1	73.2
Meat packing plants	36.8	72.4
Prepared meats	34.4	70.3
Poultry processing	52.1	93.7
Poultry and egg processing	46.3	85.7
Butter	37.1	75.5
Cheese	35.8	72.4
Condensed milk	31.2	65.6
Ice cream	34.4	72.2
Fluid milk	36.3	73.7
Canned and cured seafood	32.2	73.0
Canned specialties	26.1	59.6
Canned fruits and vegetables	29.5	64.5
Dried foods	37.2	72.2
Pickles	23.5	55.8
Packaged fish	38.5	78.3
Frozen fruits and vegetables	33.2	70.7
Flour	24.9	60.4
Cereal	18.4	46.3
Blended and prepared flour	23.2	54.9
Pet food	23.1	53.4
Manufactured feeds	31.3	72.2
Rice milling	24.3	58.8
Wet corn milling	22.4	55.2
Breads and cakes	20.1	53.2

--Continued

Table 3—Producer value employment multipliers using open and closed I/O models, 1982—Continued

Industry sector	Open model multipliers	Closed model multipliers
	Jobs per $1 million in exports	
Cookies	23.2	55.3
Sugar	30.6	67.6
Confectionery products	25.8	59.0
Chocolate and cocoa products	22.6	52.8
Chewing gum	19.8	49.4
Malt liquors	20.5	51.9
Malt	24.6	58.9
Wine, brandy and spirits	25.4	53.4
Distilled liquor except brandy	11.5	26.9
Soft drinks	27.1	61.8
Flavoring extracts and syrups	19.6	47.6
Cottonseed oil mills	34.4	71.7
Soybean oil mills	23.8	61.2
Vegetable oil mills	20.2	51.8
Animal and marine fats and oils	35.7	76.5
Coffee	15.4	35.9
Shortening and cooking oils	24.5	59.9
Manufactured ice	33.0	69.2
Macaroni and spaghetti	24.5	57.4
Food preparations	26.6	60.5
Tobacco manufacturing	18.9	43.8
Textiles, apparel and fabrics	43.3	84.6
Leather and leather products	46.8	88.9
Coal mining	18.2	53.1
Crude petroleum, natural gas	9.8	28.3
Forestry, fishing, other mining	28.9	72.7
Fertilizers	26.8	65.1
Agricultural chemicals	21.2	52.7
Petroleum refining	11.7	32.3
Other manufacturing	28.1	68.4
Transportation and warehousing	27.3	66.8
Wholesale and retail trade	38.0	76.3
Eating and drinking	52.0	90.1
Agricultural forestry fishery services	63.9	106.8
Other noncommodities	29.0	65.2
Electric services	17.1	41.7
Gas production and distribution	11.8	32.0
Real estate	13.5	73.4
Special industries	41.2	94.6
Noncomparable imports	0	0
Scrap	0	0
Households	0	51.7

To understand the working of the multiplier process, we need to keep these different components of the multiplier separate. The open model (household sector not considered) direct plus indirect output multiplier for wheat is roughly 1.93. By including the household sector, we find the personal income (household income) generated per dollar of wheat exports is $1.64. Consumption spending from this $1.64 of personal income generates an additional $2.40 of output. Thus, the total output effect per dollar of wheat exports is $1.93 of direct plus indirect output, $1.64 of personal income, and $2.40 of output induced by new consumption. To get the full $5.97 output effect presented in table 4, the household sector must continue to receive, as income, the constant share of each sector's output, the household sector must continue consuming the same fixed bundle of goods and services, and the household must spend about 80 percent of its income on these consumption items during the period.

The Government spends considerable time helping promote exports, especially "value added" exports. How does export expansion affect the Government sector?

The Government taxes both personal and business incomes. Whenever personal and business incomes rise, Government tax revenues rise. Table 5 presents estimates of the potential tax revenue which may be realized if all conditions are met and the full economic multiplier effects are realized. For example, $1 million worth of wheat exported as wheat generates $38,000 of corporate income tax, $166,000 of personal income tax, or $204,000 of tax revenue for the Federal Government. First milling the same amount of wheat into flour and then exporting it yields $117,000 corporate and $354,000 personal or $471,000 of total Federal tax revenue. The gain to the Federal Government from the transformation is $79,000 corporate taxes and $188,000 personal income taxes or $267,000 total. These tax revenues are available to expand services, reduce deficits, or reduce taxes.

Some people have objected that these multipliers should not be used as a primary basis for Government assistance to high-value products because the claimed benefits are based on key assumptions that render this use of the multipliers unrealistic. Is this a fair assessment?

Their main objection can be applied to all I/O-based multipliers. These multipliers assume the only limit on the output of an economy is a lack of markets for its production. I/O models assume that as new demands emerge, such as increased exports, new production to meet these new demands uses idle resources (labor, land, production capacity). Yes, these assumptions oversimplify how an economy operates. This simplification is the nature of economic models--they use simplifying assumptions to distill basic relationships.

With their simplifying assumptions, however, I/O analysts gain a model that accounts for the interrelationships of all the sectors of an economy. Using I/O analysis, the analysts can determine the effect on the farm sector of a change in agricultural exports, or a change in military aircraft expenditures. I/O recognizes the interrelationships of all sectors in an advanced economy such as the American economy. Affecting one sector will almost always affect all other sectors. Nearly all economic models with both an economywide perspective and sectoral detail are I/O models or I/O-based models.

OK, now let's pull it together. Let's do all three types of multipliers for one commodity.

In calendar year 1992, the United States exported 42.7 million metric tons of corn valued at $4.9 billion. This port value included shipping, handling, and storage charges between the farm and the port. In the 1982 base-year I/O table, the farm value (producer's value in I/O terminology) was 68 percent of the port value. And the price of corn in 1992 differed from the price of corn in 1982, the base year for the I/O model.

To use the "corn" multiplier from table 1, we express the $4.9 billion in 1982 dollars. One way of doing so is to use a feed grain price index. The index of prices received by farmers for feed grains fell from 120 (1977 = 100) to 114 from 1982 to 1992. The $4.9 billion in 1982 dollars is thus (4.9 X 120/114) or 5.16. $5.16 billion of corn exports times an employment multiplier of 26.5 workers/$1 million of exports is 136,740 jobs related to corn exports.

To use the "corn" multiplier from table 2, we express the 42.7 million metric tons in bushels. The 42.7 million metric tons is thus 42.7 metric tons X 39.37 bushels/metric ton X 66.8 workers/million bushels or 112,297 jobs related to corn exports.

To use the "corn" multiplier from table 3, we again express the $4.9 billion in 1982 dollars. These are producer value multipliers, however, so the multiplier applies only to the farm value of this $4.9 billion. In 1982 this share was 68 percent. The jobs related to corn exports therefore are $4.9 X 0.68 X 120/114 X

Table 4–National net effects of exporting $1 million of raw versus processed products, 1982[1]

Item	Gross output			Gross employment			Personal income		
	Raw product	Processed product	Net change	Raw product	Processed product	Net change	Raw product	Processed product	Net change
	-------- *Million dollars* -------			---------- *Workers* ----------			------ *Million dollars* ------		
Flour for wheat	5.97	14.42	7.62	62	138	76	1.64	3.50	1.86
Blended and prepared flour for wheat	5.97	59.58	53.61	62	569	507	1.64	14.24	12.60
Macaroni for wheat	5.97	69.13	63.16	62	680	618	1.64	16.92	15.28
Blended and prepared flour for flour	6.33	27.17	20.84	60	260	200	1.54	6.50	4.96
Macaroni for flour	6.33	30.73	24.40	60	302	242	1.54	7.52	5.98
Dressed poultry for corn	5.68	99.69	94.01	57	1,140	1,083	1.48	21.97	20.49
Red meat for corn	5.68	50.65	44.97	57	472	415	1.48	10.07	8.39
Wet corn milling products for corn	5.68	20.45	14.77	57	187	130	1.48	4.81	3.33
Soybean oil for soybeans	5.72	9.55	3.83	58	87	29	1.62	7.30	5.68
Cooking oil for soybeans	5.72	29.20	23.48	58	206	148	1.62	5.27	3.65
Cooking oil for soybean oil	6.75	16.65	9.90	61	146	85	1.62	3.74	2.12
Cottonseed mill products for cotton	6.18	12.74	6.56	71	133	62	1.56	3.00	1.44

[1]Based on $1 million in sales of raw commodity exports and equivalent amount of processed product

22.8 or 79,968. This is not comparable to the other two estimates because the other two estimates counted exports at the port. To be comparable, one needs to add the jobs related to assembling handling and shipping from the farm to the port. For trade services, this figure is $4.9 billion X 0.2 (the trade share of port value) X 0.788 (1982 trade prices/1992 trade prices) X 38.0 workers/$1 million of exports or 29,345 jobs related to handling corn exports. For transportation services, this figure is $4.9 billion X 0.12 (the transportation share of port value) X 0.809 (1982 transportation prices/1992 transportation prices) X 27.3 workers/$1 million of exports or 12,986 jobs related to transporting corn exports.

The total is 79,968 + 29,345 + 12,986 or 122,299 workers.

We now have three estimates of employment related to 1992 corn exports. Can we reconcile them? As previously stated, when available, volume-based estimates are preferred. The volume-based estimate, 112,299 workers, is not affected by varying prices. The first estimate, 136,740 workers, is higher because the adjustment for the feed grain price change applies to the full value of exports, but price changes vary by sector. In fact, the prices for trade and transportation services rose while corn prices dropped slightly. Adjusting components, the 122,299 estimate, rather than the whole gives stronger estimates.

Suppose some impoverished nation discovered oil within its borders and used some oil funds to make a 10-year commitment to purchase corn from the U.S. to feed to livestock. What would be the effects upon the U.S. economy?

This would be a new and "permanent" source of export demand. The "closed" model multipliers of table 3 apply. Each additional million dollars of corn exports would create nearly 57 new jobs and $1.48 million of personal income.

What if that nation gave the United States the option of delivering the corn as grain or as the equivalent amount of red meat that this corn could produce?

If all conditions were met and all obstacles removed, an unlikely occurrence in the current state of market protectionism, subsidies, tariffs and numerous other factors contributing to an uneven playing field, it would be a boon to the United States The multipliers in table 4 would now apply Exporting the corn as red meat would mean $45 million of additional output, 415 addi-

Table 5—National tax revenue effects of raw versus processed exports,1982[1]

Item	Corporate income taxes			Personal income taxes			Total Federal taxes		
	Raw product	Processed product	Net change	Raw product	Processed product	Net change	Raw product	Processed product	Net change
					$1,000				
Flour for wheat	38	117	79	166	354	188	204	471	267
Blended and prepared flour for wheat	38	715	677	166	1,439	1,273	204	2,154	1,950
Macaroni for wheat	38	805	767	166	1,710	1,544	204	2,515	2,311
Blended and prepared flour for flour	51	326	275	156	656	500	207	982	775
Macaroni for flour	51	358	307	156	760	604	207	1,118	911
Dressed poultry for corn	36	563	527	149	2,219	2,070	185	2,782	2,597
Red meat for corn	36	281	245	149	1,017	868	185	1,298	1,113
Wet corn milling products for corn	36	175	139	149	486	337	185	661	476
Soybean oil for soybeans	37	57	20	164	232	68	201	289	88
Cooking oil for soybeans	37	182	145	164	533	369	201	715	514
Cooking oil for soybean oil	40	129	89	164	378	214	204	507	303
Cottonseed mill products for cotton	39	78	39	158	303	145	197	381	184

[1]Based on $1 million in sales of raw commodity exports and equivalent amount of processed product

tional jobs, and $8,390,000 additional personal income per $1 million of corn exports.

So the size of the export multiplier really depends on what question is asked?

Yes, these potential economic effects of corn exports are comparable to the largest employment multipliers in the 23.8 to 137.6 range of jobs per $1 million of exports in the wheat example given earlier. Again, because the "open" model, to which the lowest employment multiplier, 23.8, is linked, does not consider additional household spending induced by the added income made possible by agricultural exports, "open" model estimates of the economywide influences of agricultural trade are conservative. Conversely, these "boon" figures for corn shipped as red meat and the 137.6 jobs per $1 million of wheat exports generated by the "closed" I/O model overestimate economywide effects of agricultural trade by the effect of any conditions, obstacles, or assumptions not met in the "real world."

Any last piece of advice about using agricultural trade multipliers?

The user must first determine which model--open or closed--would be most appropriate to use to answer the question. The user must determine at which point in the farm to foreign consumer path they want to apply the multipliers. After choosing and applying the appropriate multipliers, users ought to be aware when interpreting their results that the smallest multipliers are underestimating and the largest overestimating "real world" scenarios. Still, the results provide useful insights about the potential effects of changes in the level and composition of exports on the U.S. economy

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Mr. ALLARD. And in the past, USDA representatives stated that the USDA cannot guarantee exporters will take advantage of EEP initiatives for high-value products and that many EEP initiatives expire with outstanding balances. Can you quantify this? Is the process used by USDA to approve these initiatives responsible for these lost sales?

Mr. GOLDTHWAIT. I will provide a listing that shows for the high-value products specifically the allocations from our most recent full marketing year as well as the portions of those allocations that were actually utilized.

But it is true that not all of the balances are in fact fully utilized for many of the initiatives under EEP both for high-value products as well as for bulk commodities. In point of fact, when we put together the allocations at the beginning of a particular marketing year for a particular product we are estimating what the demand in a particular targeted country will be for that product. There are many things in that market that change in the course of the year that mean that the demand may be greater, in which case we try to put forward a supplemental allocation in the course of the marketing year, but there are also things that mean that the demand may be smaller. There are also the changes in our own supply and demand situation and price situation that have some impact. So I think that it is in fact really the difficulty of estimating in advance what demand will be and our effort to be sure that we have plenty of available allocation out there to meet that demand which accounts for the unused balances.

[The material follows:]

30-Jun-1993 STATUS OF THE EXPORT ENHANCEMENT PROGRAM PAGE: 1

CASES OF REMAINING BALANCES AT EXPIRATION

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Wheat (Metric Tons)		
Algeria (500-1)	516,150	30-Jun-1993
Bahrain (500-124)	25,000	30-Jun-1993
Bangladesh (500-68)	388,025	30-Jun-1993
China (500-61)	5,001,925	30-Jun-1993
Cyprus (500-125)	590	30-Jun-1993
East European Countries (500-122)	122,000	30-Jun-1993
Egypt (500-3)	3,400	30-Jun-1993
India (500-97)	517,250	30-Jun-1993
Jordan (500-19)	102,400	30-Jun-1993
Kenya (500-102)	100,000	30-Jun-1993
Kuwait (500-114)	102,000	30-Jun-1993
Lebanon (500-88)	1,700	30-Jun-1993
Malta (500-111)	8,000	30-Jun-1993
Morocco (500-6)	121,275	30-Jun-1993
Norway (500-112)	150	30-Jun-1993
Pakistan (500-135)	440	30-Jun-1993
Poland (500-58)	144,500	30-Jun-1993
Romania (500-56)	213,900	30-Jun-1993
Slovenia (500-146)	110,200	30-Jun-1993
South Africa (500-134)	3,116	30-Jun-1993
Sri Lanka (500-32)	750	30-Jun-1993
Sub-Saharan Africa (500-50)	632,192	30-Jun-1993
The Baltic Countries (500-147)	100,000	30-Jun-1993
The Philippines (500-15)	13,400	30-Jun-1993
The former Soviet Union (500-67)	1,888,005	30-Jun-1993
Trinidad and Tobago (500-108)	5	30-Jun-1993
Tunisia (500-18)	155,875	30-Jun-1993
Turkey (500-7)	109,800	30-Jun-1993
Venezuela (500-126)	440	30-Jun-1993
Yemen (500-5)	16,020	30-Jun-1993

FIGURES DO NOT REFLECT AMENDMENTS

30-Jun-1993 STATUS OF THE EXPORT ENHANCEMENT PROGRAM PAGE: 2

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Wheat Flour (Metric Tons)		
Algeria (505-17)	120,000	30-Jun-1993
Egypt (505-2)	173,000	30-Jun-1993
Lebanon (505-144)	50,000	30-Jun-1993
Slovenia (505-145)	40,000	30-Jun-1993
Sub-Saharan Afr. Countries (505-106	471,864	30-Jun-1993
The Republic of Yemen (505-4)	0	COMPLETED
Barley Malt (Metric Tons)		
Brazil (507-105)	22,600	30-Jun-1993
Caribbean Countries (507-119)	9,000	30-Jun-1993
Central American Countries (507-93)	33,750	30-Jun-1993
The Philippines (507-48)	25,000	30-Jun-1993
The former Soviet Union (507-136B)	24,920	30-Jun-1993
Venezuela (507-45)	16,500	30-Jun-1993

FIGURES DO NOT REFLECT AMENDMENTS

10-Aug-1993 STATUS OF THE EXPORT ENHANCEMENT PROGRAM PAGE: 1

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Frozen Pork (Metric Tons)		
Eligible Countries of the FSU	30,000	10-Aug-1993

FIGURES DO NOT REFLECT AMENDMENTS

09-Jul-1993 STATUS OF THE EXPORT ENHANCEMENT PROGRAM PAGE: 1

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Canned Peaches (Metric Tons)		
Japan (517-130)	1,955	09-Jul-1993
Korea (517-131)	642	09-Jul-1993
Mexico (517-132)	2,215	09-Jul-1993

FIGURES DO NOT REFLECT AMENDMENTS

81-791 O - 94 - 2

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Feed Grains (Metric Tons)		
Algeria (504-30)	51,000	30-Sep-1993
Cyprus (504-44)	29,000	30-Sep-1993
Czech Rep. & Slovak Rep. (504-157)	100,000	30-Sep-1993
Finland (504-139)	200,000	30-Sep-1993
Israel (504-35)	0	30-Sep-1993
Jordan (504-36)	800	30-Sep-1993
Malta (504-116)	35,000	30-Sep-1993
Morocco (504-140)	158,000	30-Sep-1993
Poland (504-57)	200,000	30-Sep-1993
Saudi Arabia (504-31)	1,000,000	30-Sep-1993
Slovenia (504-158)	40,100	30-Sep-1993
The former Soviet Union (504-120)	230,000	30-Sep-1993
Vegetable Oil (Metric Tons)		
Algeria (502-78)	25,500	30-Sep-1993
China (502-117)	80,000	30-Sep-1993
Hong Kong (502-129)	60,000	30-Sep-1993
Lebanon (502-137)	18,500	30-Sep-1993
Mexico (502-115)	20,004	30-Sep-1993
Morocco (502-77)	132,000	30-Sep-1993
Norway (502-152)	20,300	30-Sep-1993
Senegal (502-138)	5,000	30-Sep-1993
Slovenia (502-153)	20,000	30-Sep-1993
The Dominican Republic (502-113)	30,000	30-Sep-1993
The former Soviet Union (502-118)	150,000	30-Sep-1993
Tunisia (502-76)	15,000	30-Sep-1993
Turkey (502-92)	45,500	30-Sep-1993
Malting Barley (Metric Tons)		
Colombia (516-123)	50,000	30-Sep-1993
Turkey (516-141)	100,000	30-Sep-1993

FIGURES DO NOT REFLECT AMENDMENTS

COMMODITY/COUNTRY/ UNIT OF MEASURE	BALANCE	DATE EXPIRES
Rice (Metric Tons)		
Algeria (509-128)	29,000	31-Dec-1993
East European Countries (509-109)	120,971	31-Dec-1993
Israel (509-127)	0	31-Dec-1993
Jordan (509-8)	30,000	31-Dec-1993
Lebanon (509-142)	34,000	31-Dec-1993
Morocco (509-143)	35,000	31-Dec-1993
The former Soviet Union (509-121)	150,000	31-Dec-1993
Turkey (509-66)	63,897	31-Dec-1993
Frozen Poultry (Metric tons)		
Egypt (508-11)	20,000	31-Dec-1993
Gulf Countries (508-81)	1,733	31-Dec-1993
Jordan (508-107)	10,000	31-Dec-1993
Saudi Arabia (508-80)	4,582	31-Dec-1993
Singapore (508-75)	2,312	31-Dec-1993
Eggs (Dozen)		
Hong Kong (506-39)	0	31-Dec-1993
Near East Countries (506-74)	1,070	31-Dec-1993

FIGURES DO NOT REFLECT AMENDMENTS

Mr. ALLARD. Is it your sense that maybe some of the people who utilize EEP are getting frustrated with the steps that they have to go through in order to use those resources in expanding their markets and, consequently, where you may have been counting on them utilizing the program, they drop out and say the heck with it, we don't need the Government?

Mr. GOLDTHWAIT. Certainly when various exporters participate in the program they need to go through various steps.

Mr. ALLARD. Are they complicated steps?

Mr. GOLDTHWAIT. I don't think they are terribly complicated.

Mr. ALLARD. Can we do something to simplify them?

Mr. GOLDTHWAIT. We continually try to find ways to simplify them.

Mr. ALLARD. See, I think that we need to do something to eliminate some of the rules and regulations so that the process moves along in a speedier process so that we get these applications approved and can move ahead in the program. It doesn't do any good to appropriate dollars to this program if it gets tied up in a regulatory maze of some type. So I would encourage you to go ahead and look at ways of how we may make the program more efficient in that regard.

Mr. GOLDTHWAIT. We are continually trying to do that. I think that the experience in recent years has been that we have had increasing numbers of participants under the program. This is true particularly under the DEIP with respect to dairy exports. Obviously, there may be additional steps that we can take along the lines you are suggesting and we will certainly look into that.

Mr. ALLARD. I appreciate your interest in that.

The economic vitality of rural America is linked to increased trade in agriculture and other products. Through increased trade we can provide jobs and a better future for the American people, and I think we agree to that. What share of EEP and the credit guarantee program is devoted to value-added products and has this figure changed over the past 10 years as far as a percentage?

Mr. GOLDTHWAIT. Again, I will be happy to provide the precise data for the most recent fiscal year for the record. Generally speaking over the past 10 years, however, the share for these products has increased. This is I think a trend that is likely to continue.

[The material follows:]

VALUE OF EEP, SOAP, COAP, AND DEIP BONUSES SPENT ON VALUE-ADDED PRODUCTS
IN MILLIONS BY FISCAL YEAR

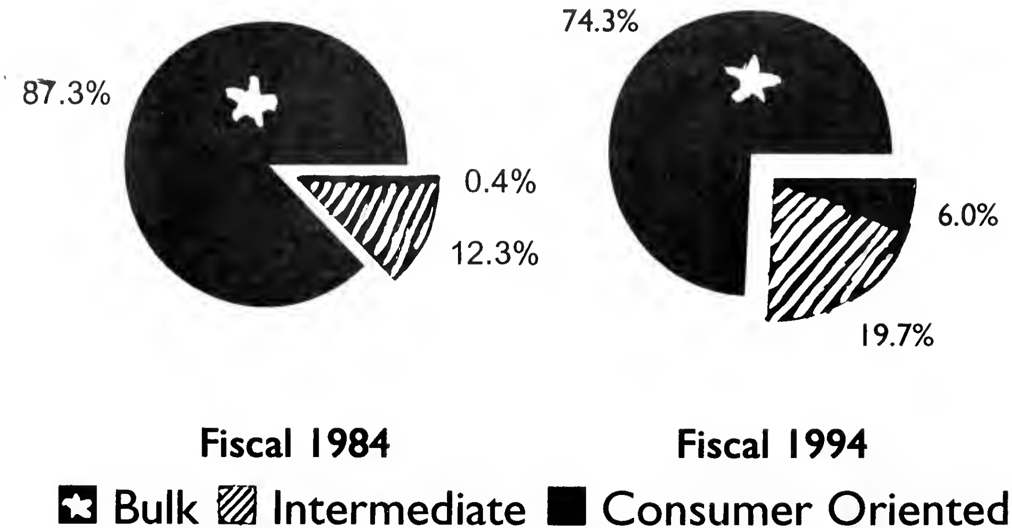
	1985	1986	1987	1988	1989	1990	1991	1992	1993
EEP									
BARLEY MALT	$0.0	$0.4	$10.0	$5.6	$0.3	$5.6	$2.8	$2.1	$4.4
CANNED PEACHES	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.2	$0.3
DAIRY CATTLE	$0.0	$8.6	$74.2	$10.0	$0.0	$0.0	$0.0	$0.0	$0.0
EGGS	$0.0	$0.0	$5.1	$4.9	$0.6	$1.9	$4.8	$4.9	$12.7
FROZEN POULTRY	$0.0	$31.9	$60.3	$6.8	$3.8	$10.8	$10.4	$13.3	$4.4
POULTRY FEED	$0.0	$0.0	$10.0	$6.6	$0.0	$0.0	$0.0	$0.0	$0.0
SEMOLINA	$0.0	$0.0	$12.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
VEGETABLE OIL	$0.0	$0.0	$1.0	$50.3	$11.4	$4.4	$14.2	$30.2	$35.7
WHEAT FLOUR	$11.6	$58.5	$69.4	$32.2	$29.7	$13.1	$38.2	$25.4	$78.2
DEIP									
BUTTERFAT	$0.0	$0.0	$0.0	$0.0	$0.0	$9.2	$22.5	$23.8	$12.3
DRY MILK	$0.0	$0.0	$0.0	$8.0	$0.0	$0.0	$13.3	$47.2	$144.1
CHEESE	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$3.5	$5.0	$5.4
SOAP	$0.0	$0.0	$0.0	$0.0	$8.2	$3.8	$10.2	$20.9	$25.3
COAP	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$5.2	$2.7	$6.8
TOTAL	$11.6	$99.4	$242.4	$124.4	$54.0	$48.8	$125.1	$175.7	$329.6

PERCENT OF EEP, SOAP, COAP, AND DEIP BONUSES SPENT ON VALUE-ADDED PRODUCTS BY FISCAL YEAR

	1985	1986	1987	1988	1989	1990	1991	1992	1993
EEP									
BARLEY MALT	0.0%	0.1%	1.1%	0.6%	0.1%	1.8%	0.3%	0.2%	0.5%
DAIRY CATTLE	0.0%	3.4%	8.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EGGS	0.0%	0.0%	0.5%	0.5%	0.2%	0.6%	0.5%	0.5%	1.3%
FROZEN POULTRY	0.0%	12.4%	6.5%	0.7%	1.1%	3.5%	1.1%	1.4%	0.5%
POULTRY FEED	0.0%	0.0%	1.1%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
SEMOLINA	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
VEGETABLE OIL	0.0%	0.0%	0.1%	5.0%	3.4%	1.4%	1.5%	3.1%	3.7%
WHEAT FLOUR	51.6%	22.8%	7.5%	3.2%	8.8%	4.2%	4.2%	2.6%	8.1%
DEIP									
BUTTERFAT	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	57.3%	31.3%	7.6%
DRY MILK	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	33.8%	62.1%	89.1%
CHEESE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.9%	6.6%	3.3%
SOAP	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COAP	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%
TOTAL	51.6%	38.8%	26.1%	12.2%	15.6%	15.0%	12.9%	13.6%	17.6%

GSM Availability for Bulk, Intermediate, & Consumer Products

Fiscal year 1984 versus 1994* - All Countries



*Fiscal year 1994 as of May 13, 1994

Summary of USDA Export Credit Guarantee Programs
GSM-102/103, Fiscal years 1984 through 1994
(Millions of Dollars)

	FY 1984*	FY 1985*	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994#
GSM-102/103 Announced Funding Levels											
Bulk	3,600 06	3,738 30	3,638 85	3,112 50	3,645 59	3,829 82	3,884 28	4,074 95	4,892 44	3,713 96	2,923 80
Intermediate	509 10	706 05	886 15	984 90	1,459 08	1,246 61	1,020 52	1,059 95	1,155 64	801 84	777 20
Consumer-Oriented	16 40	40 80	27 30	134 90	191 73	374 07	174 20	238 00	255 37	394 70	235 50
TOTAL ...	**$4,125.56**	**$4,485.15**	**$4,552.30**	**$4,232.30**	**$5,296.40**	**$5,450.50**	**$5,079.00**	**$5,372.90**	**$6,303.45**	**$4,910.50**	**$3,936.50**
Of All GSM-102/103, Percent Available as:											
Bulk	87%	83%	80%	74%	69%	70%	76%	76%	78%	76%	74%
Intermediate	12%	16%	19%	23%	28%	23%	20%	20%	18%	16%	20%
Consumer-Oriented	0 4%	1%	1%	3%	4%	7%	3%	4%	4%	8%	6%

* Does not include Blended Credits

\# Fiscal year 1994 as of May 13 1994

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Mr. ALLARD. Thank you. I would appreciate your getting that information to us. Thank you, Mr. Chairman.

Mr. PENNY. Thank you, Mr. Allard. And thank you to both witnesses. We appreciate your participation in this morning's hearing.

With that, we will call forward our second panel composed of Mr. Gene Bovee, senior vice president, National Bank of Cooperatives, and Mr. Richard Nelson, executive director, Agricultural Utilization Research Institute. We welcome your participation in today's hearing. We will start with Mr. Bovee, then hear from Mr. Nelson, and then proceed with questions. You are free to summarize your remarks as you wish. Your entire written statement will be included in the committee record.

STATEMENT OF EUGENE L. BOVEE, SENIOR VICE PRESIDENT AND SENIOR CREDIT AND ADMINISTRATIVE OFFICER, CoBANK—NATION BANK FOR COOPERATIVES

Mr. BOVEE. Mr. Chairman and Congressman Allard, my name is Gene Bovee. I am a senior vice president and senior credit and administrative officer of the international banking group of CoBank.

CoBank is part of the Farm Credit System. The bank provides financial services to farmer-owned cooperatives, rural utility systems, and facilitates the export of U.S. agricultural commodities. With $14 billion in assets and customers doing business throughout rural America, we are keenly aware and interested in Federal policy issues that affect agriculture, agricultural exports, and rural communities.

Since 1982, CoBank has provided over $18.5 billion in financing to support export sales of more than 30 agricultural products to some 40 countries. CoBank has a unique role in promoting U.S. agricultural exports. We are the only financial institution that markets U.S. agricultural products in conjunction with our lending programs.

CoBank is the most active participant in the Department of Agriculture's export loan guarantee programs, accounting for somewhere between 40 and 50 percent of all the guarantees issued over the past several years. CoBank has been the only U.S. bank consistently active in these programs.

More than at any time in our history, farmer-owned cooperatives appreciate the importance of capturing the profits to be realized by adding value to their own products, and marketing these value-added products in the United States and in other countries.

I would like to outline specific proposals that will help ensure the availability of financial services needed by U.S. agriculture to compete effectively in international markets. These proposals would provide financing needed by farmer-owned cooperatives to expand their value-added operations in foreign markets while also providing a new source of export financing for value-added products not traditionally handled by cooperatives.

Many farmer-owned cooperatives are seeking new business opportunities through joint ventures and partnerships in foreign countries and in the United States. Such strategic alliances are common for many businesses and essential for farmer-owned cooperatives seeking to enter new markets or create new sources of profits for farmers by adding value to agricultural commodities.

Current law, which did not contemplate today's economic environment, inhibits farmer-owned cooperatives from entering into such arrangements by restricting the ability of their traditional lenders, the Banks for Cooperatives, from providing needed financing. We propose that Congress eliminate the barriers that exist for farmer-owned cooperatives in obtaining financing for international business activities in which they have an ownership interest. We propose that CoBank be authorized to provide financing of these joint ventures, partnerships, and similar arrangements where cooperatives have an ownership interest.

I have provided some actual examples in my prepared statement of how this authority would be used, and these are similar to those which have been presented in Mr. Nash's testimony earlier this morning.

It would also be beneficial to U.S. farmers if the Banks for Cooperatives were authorized to finance the export of more value-added products. It is estimated that each $1 in exports generates an additional $1.23 in related economic activity. Each $1 billion in bulk agricultural exports is estimated to create almost 22,000 jobs. We estimate that each $1 billion in value-added export sales creates over 28,000 jobs. When a U.S. farmer-owned cooperative is involved in processing and exporting an agricultural product more of the financial benefits are realized by the farmer.

To facilitate the sale of additional agricultural exports we propose that Congress authorize CoBank to finance the sale of any agricultural product originating in the United States. Except for agricultural products purchased by the States of the former Soviet Union, current law limits CoBank to financing only those exports that originate from agricultural cooperatives. This proposal would make U.S.-based financing more readily available to support export sales of products not traditionally handled by cooperatives. In many cases this will involve value-added products such as processed meat, fruits, and vegetables.

Under the trade financing provisions we propose, U.S. farmers will be the ultimate beneficiaries although the actual credit taker will be the foreign purchaser. This is an important point. This export financing proposal would complement, not supplant, the financing presently provided by commercial banks to U.S. agribusiness companies that are not cooperatives. The foreign purchaser, not the U.S. exporting company, is the credit taker in these transactions.

With the exception of CoBank, most agricultural export financing is provided by foreign banks with little or no long-term commitment to U.S. agriculture and little or no interest in the long-term health of our Nation's economy. Based on CoBank's past experience, we can demonstrate that the availability of the bank's financing has resulted in sales of U.S. agricultural products that would not otherwise have taken place.

CoBank clearly has a role to play in helping U.S. agriculture and rural communities to become more competitive. Our interest in this area is driven by the knowledge that Congress established the Farm Credit System and CoBank to serve rural America. We are also motivated by the fact that our customer-owners are demanding financial services they will need to survive so they can serve their

rural customers and realize the benefits of a prosperous rural economy.

Mr. Chairman, attached to my testimony is a paper that addresses the most frequently asked questions about CoBank's international banking activity. I would ask that this document be included in the hearing record.

Mr. PENNY. Without objection, the document will appear in the hearing record.

Mr. BOVEE. Thank you. Mr. Chairman and Congressman Allard, I appreciate the opportunity to appear here today. I would be pleased to respond to any questions.

[The prepared statement of Mr. Bovee appears at the conclusion of the hearing.]

Mr. PENNY. Thank you, Mr. Bovee.

Next, Mr. Nelson.

STATEMENT OF RICHARD NELSON, EXECUTIVE DIRECTOR, AGRICULTURAL UTILIZATION RESEARCH INSTITUTE

Mr. NELSON. Mr. Chairman and Congressman Allard, my name is Richard Nelson. I am executive director of the Agricultural Utilization Research Institute in Minnesota. We are a public, nonprofit institute whose mission is to foster increased business and employment opportunities in rural Minnesota through the development and commercialization of new uses, new markets, and value-added business activity in the agricultural sector of our State. We were started for a very simple reason—we're losing population, we're losing infrastructure, and we're losing economic activity in rural Minnesota just as many rural farm States are.

Data shows that over the past 50 or 60 years the farmer's share of the retail food dollar has dropped from 41 cents to 9 cents while the value-added share—the processing, distribution, and marketing share—has risen to about 70 cents. Market basket food costs in the past 15 years have gone up 65 percent while the farmer's share has declined by about 4 percent. The profits very clearly are in downstream processing, distribution, and marketing, not in production agriculture. So it is that tact that we take as an institute to develop and secure new growth opportunities, agriculturally based as they are, in our agricultural regions.

As it has been, and still is today, it is the small companies and the start-ups that are the sources, the engines of economic activity. The size of these companies is very small. I know that the Small Business Administration and others have definitions for how many employees are small to medium size and that sort of thing, but we are talking about 2, 3, 5, 10, 12 employees. That is the size of a company that can really make an impact on a small town. So those are the companies that we need to work with. A small company by multinational standards selling $10 million a year into a niche market in the value-added sector can completely turn around any 1 of 1,000 struggling small towns. But that same level of sales would be undetectable in the quarterly report of most of the large conglomerates.

The AURI strategy is to provide high quality, accessible, responsive, and multidimensional service. We promote success by identifying, sharing, and overcoming risks. But most importantly, we rec-

ognize that it is the local leaders who know their local ambitions and their local capacities best and we insist that they lead and champion the projects. We observe that there is the human and physical capacity to develop these new businesses and markets in rural areas. The challenge is to create the conditions that will allow them to succeed and to produce more income from our commodities, not more commodities from our fields.

We have over 250 projects in our portfolio. I think it is important to note that no two are alike. Data from IC Squared Institute at the University of Texas in Austin indicates that the cause of failure of innovation is rarely due to inadequate technology, about 12 percent of the time, and it is rarely due to lack of capital, about 15 percent of the time. The real challenge that these small companies face is in the area of management and marketing. It is not surprising then that one dimensional programs and public assistance usually focuses on providing capital or technology transfer and it is not surprising then that they often fall a little bit short of their expectations. That is not where the real problems are. Yes, they are problems, but they are not the most frequent cause of failure. The solution there to our way of thinking is only available through personal on-call service, one-on-one, before, during, and after the life of the project. That is the way I believe that our track record shows and our rate of success is to my knowledge unsurpassed in this area.

The institute works regularly with outside resources, researchers, colleges, and universities, Federal entities such as the Cooperative State Research Service, the ARS labs and others, the Departments of Interior and Energy have been participants in our projects. We seek out assistance, expertise, collaboration wherever it will improve the probability of success of one of our clients. At the Federal level, however, it is USDA that must be the first to recognize, be the first to endorse a new and comprehensive program for value-added agriculture in America, but to recognize that the usual service delivery systems may not be the best choice for implementation, and to resolve that the economic and social benefits of value-added agriculture simply must be achieved.

We have mentioned, if I may, Mr. Chairman, the AARC program earlier. We believe that the AARC program in concept is very exciting. The Agriculture Utilization Research Institute has been approved to be a host institution of a regional center to quickly realize some of the principles embodied in that legislation. I understand that with a change of administration and with the reorganization described by Mr. Nash that there has been a lot of additional thought and a lot of work done on how to implement the AARC program in the most effective way possible. We are awaiting in our part of the country the establishment of the regional center.

May I say that Mr. Nash's comment on trying to find partnerships is admirable and very well taken. Those of us, the founding members of the three States that proposed to start this regional center, are ready. We are only waiting formal approval from the Department of Agriculture to go ahead. We believe that this approach to the regional delivery of services is entirely consistent with USDA's apparent commitment to expand effective outreach

activities. And what better way than working directly with people that live and work in those areas that need to be served.

I'll stop there, Mr. Chairman.

[The prepared statement of Mr. Nelson appears at the conclusion of the hearing.]

Mr. PENNY. Thank you for your testimony.

Mr. Bovee, you expressed frustration about the inability of CoBank to involve itself in a whole range of lending practices and you described some of the opportunities that are prohibited under current policy. Are we able to distinguish clearly between those lending activities that would primarily generate wealth in our rural communities as opposed to those where a lot of the profits are going to be realized overseas? The point I am making is that some of the activities that you expressed an interest in financing appear to me to be activities where the processing or the packaging or some other finishing work would actually occur in the host country. I am just curious as to whether that would provide the sort of benefits domestically that we seek and whether in fact those lending arrangements would support the movement of a product to be processed in some other country.

Mr. BOVEE. One of the areas that we get requests from our ownership is to help expand into a foreign market. That may involve some type of an investment on their part in a foreign country which is not going to displace anything in the United States but is rather going to complement what they have here.

Mr. PENNY. In some cases though it appeared that the investment in the foreign country was simply for distribution purposes, maybe warehousing and that sort of facility. In others, it looked as if the financing would actually support the establishment of a processing facility or a packaging facility within the host country. Am I correct in that reading of your testimony?

Mr. BOVEE. Yes. We are looking at the ability to follow our member-owners wherever they go with their investments.

Mr. PENNY. And the investment would be tied to the share that the American cooperative would have in that venture?

Mr. BOVEE. Generally, yes. It would allow us to work with say a joint venture partner with our member-owner in a foreign country in which we would involve a correspondent bank. We foresee that the partner of our member-owner would be a major partner, if not the major partner.

Mr. PENNY. If you were the dominant partner, would this allow CoBank to underwrite the entire venture?

Mr. BOVEE. Yes, it would.

Mr. PENNY. If less than 50 percent share for the American cooperative, then CoBank's share could only match the level of involvement by the U.S. cooperative?

Mr. BOVEE. Yes, sir. Those would be the maximums that CoBank could do under that proposal.

Mr. PENNY. OK. The restrictions up until now have tied you strictly to U.S. entities. Is that correct?

Mr. BOVEE. The current authority restricts us to financing only agricultural commodities, farm supplies, aquatic products that are originated with our cooperative owners.

Mr. PENNY. You are involved though in the export arena as long as it is simply for delivery?

Mr. BOVEE. Yes. Everything we do is transactional financing.

Mr. PENNY. Your testimony indicated your financial institution is basically the only American financial institution involved in those GSM sales.

Mr. BOVEE. I did not mean to imply it was the only one.

Mr. PENNY. Chris disputed this in his testimony by suggesting that in a tangential way there were other U.S. lenders involved.

Mr. BOVEE. There are other U.S. lenders involved. The majority of the banks that are involved are branches of foreign banks and we are the only lender that really actively promotes the program and the sale of commodities.

Mr. PENNY. And as a portion of all GSM sales, what percent does CoBank handle?

Mr. BOVEE. We estimate that in the last year it was approximately 50 percent, and over the last 4 or 5 years it has been in the 40 to 45 percent range.

Mr. PENNY. In terms of CoBank's financial ability, is there any limitation on how much you could allocate to these new ventures which you have described?

Mr. BOVEE. We are limited by the amount of risk which we are able to take in any country. This limit is set under policies approved by the board. It would not be large amounts. We would not see that as being a major utilization.

Mr. PENNY. And you don't see these involvements as high risk undertakings?

Mr. BOVEE. In most cases, we would try to work with export agencies other than the Commodity Credit Corporation or in the sector of the new GSM–102 that Chris alluded to earlier that would cover things outside of strictly commodity financing. But we would try to arrange wherever possible some type of Ex–Im Bank or Commodity Credit Corporation support.

Mr. PENNY. To share the risk in some way.

Mr. BOVEE. That is correct, sir.

Mr. PENNY. I guess the other concern that I know might be expressed is that if we allow this new authority for the CoBank that it may jeopardize the financial solvency of the bank and that, in turn, could hurt your domestic portfolio simply by weakening the overall bank. You don't feel that there is any exorbitant risk entailed in broadening into this international arena?

Mr. BOVEE. Not in the way that we plan to utilize that authority, no, sir.

Mr. PENNY. Thank you.

Mr. Nelson, you described fairly extensively your reasons for supporting value-added exports and the benefits that those exports bring to rural communities. In looking at the reorganization plan for the USDA, are you satisfied that the new structure is going to be a more coherent structure in terms of supporting our value-added agenda?

Mr. NELSON. Mr. Chairman, we are very encouraged by the vision and the priorities apparently set by Secretary Espy and addressed in some degree by Mr. Nash this morning. We believe that the focus on value-added with specific connection to rural develop-

ment is a suitable and important role for USDA. The key I believe is implementation. We know very well in this country how to add value to agricultural commodities. Where we have not put much emphasis or where we have perhaps fallen behind is in being able to create or add that value and retain it in the producing regions.

I think one of the challenges that faces USDA is to package the service delivery programs that go beyond just financing. It is very difficult I understand to target Federal programs to the specific recipients that are most likely to generate the activity that we need in the economy, particularly being small and start-up companies that don't know whêre to look for it. It is incumbent upon USDA to go out and find them. And barring any major new staffing or search and destroy mission on their part, it is our suggestion that they make every effort to plug into some of the networks that individual States and communities have already established. I would think, for example in the AARC case, that I would look to the board of directors of AARC to establish criteria, to set outcomes, and then to find the partners to get the job done in a cost-effective manner. I believe that USDA in general is on the right track. I believe that they are addressing issues that need to be addressed. But as they say, the proof is in the pudding and we're anxious to work with them.

Mr. PENNY. What do you perceive as the most significant barriers in securing financing for these processing ventures?

Mr. NELSON. The most significant barriers, Mr. Chairman, I believe is the groundwork that is laid before the applicants ever walk through the bank door or to an assistance program. I have here a list put out by the St. Paul Bank for Cooperatives that talks about the 10 major reasons that predispose cooperatives to success or failure. The interesting thing there is that none of the 10 has to do with capitalization. It has to do with doing the work that will allow you to get the capital and this requires, as I said, the hands-on, one-on-one help.

The growers that come together that haven't been involved in these activities before, these are the ones that we want to get involved in participating directly in the value-added market. They need to know when and how to set up a steering committee, when it is an appropriate time to bring in an accountant and a lawyer, and what programs to look at. So it is very much a how-to, hands-on process. We are very fortunate in Minnesota and particularly in North Dakota to have some success stories to look at, some models if you will. But these are models that have application across our agricultural systems and across the country.

Mr. PENNY. Have you drawn any conclusions about the nature of these processing facilities? Are we seeing more of them established along cooperative lines rather than individual entrepreneurs? Is there a reason to believe that the cooperative model is maybe a preferred model in this area?

Mr. NELSON. Mr. Chairman, I believe there are reasons to believe that is the case. Certainly, growers are anxious to participate in this opportunity for profitability, but the resources, as in the case of farming, the resources are tied up primarily in capital assets. Available cash is minimum in some cases and they need to pool their resources.

Just this past year in the middle part of the country I believe that the situation with the floods has gotten an awful lot of producers looking at this. The other thing that investment in value-added does is provide resistance to natural disasters. We have in North Dakota, as you know, there is a grow our own pasta plant out there and we had a terrible year for Durum in northwestern Minnesota and eastern North Dakota this year. Yes, prices are up but most growers didn't have much to sell. Nevertheless, that plant today is operating two shifts 6 days a week and the growers that invested in that Durum plant are still making money this year, maybe not as much as if they were using all their own Durum, but the fact is they are still making money in a very bad year.

Mr. PENNY. Thank you.

Mr. Allard.

Mr. ALLARD. In your setting up your loan programs and working with your international entities, how do you go about risk assessment? Is it going to be along the same lines of risk assessment that you have to go through when you do business in this country or is there a lesser standard that you will be held to in foreign countries?

Mr. BOVEE. In any foreign venture, you have really three types of risk. You have country risk. So first we have to evaluate the country and we have a very elaborate method for going through and establishing what we believe a country limit should be in a given country, and this is all approved under policies that are established by the board. Then within each country we have a number of different borrowers who, in our case, are generally banks because most of our international business is conducted under the commodity credit guarantee programs and a letter of credit is required. So we work with banks and we do an individual analysis of each bank that we are looking to do business with in that country. And the other major risk is the business risk because we are dealing in letters of credit and a large number of documents. It is very technical in nature so we cover those basic risks.

We establish for each country a grade and based on that grade we allot a maximum dollar amount based on our capital that we will take in—what we call cross-border exposure. Our country limits tend to be relatively low. We do not have huge dollar amounts that we can do without a guarantee or an insurance program of some type.

Mr. ALLARD. If you have a loss overseas, do you plan on figuring this in on your international side of doing business or is this going to be figured in to the total ledger so that both Americans and foreign customers would have to absorb those losses? Do you understand what I am saying?

Mr. BOVEE. Yes, sir. Technically, the bank has a single allowance for loan loss. But we have built up as a part of that—out of the profits that have been generated in international business—a large percentage of that which we believe adequately covers the risk. That has all been created out of profits that we've made from foreign lending.

Mr. ALLARD. So any losses on a foreign investment would be reflected on the foreign side of your ledger?

Mr. BOVEE. That is correct.

Mr. ALLARD. Where do you think most of your interest will come in if we would allow you to expand in international markets? What commodities do you think specifically would be benefited in this country?

Mr. BOVEE. I believe most of the interest will be in bulk commodities but also the value-added products. We are seeing interest in more value-added products being exported. We have developed a very good name in a number of foreign markets and we get a lot of requests for financing that we are unable to handle because they don't fit the authorities that we have. This places a burden oftentimes on the relationship that we have had and in many cases we are in a position where we could effect the financing of that transaction but we can't because of the restrictions on our lending abilities.

Mr. ALLARD. What I would like to have you share with this committee, if you can, is are we talking about more consumption of orange juice overseas or more consumption of breakfast cereal, or are we talking about maybe some farm implements, or are we talking about natural fuel? I would like to get some feel from your experience as to where you think the greatest growth will occur.

Mr. BOVEE. Probably in the area of fruits, vegetables, processed meats. We are seeing demand for those types of commodities that is difficult in many instances for us to react to. We feel that there are opportunities that this will allow us to do that will be beneficial for the farmers.

Mr. ALLARD. So on fruits and vegetables, you think we would be able to capture those markets during that time of the year when maybe it wouldn't be the season for them to be growing in the host country and then we could fill in on those off seasons is what you are suggesting and looking at as a good potential for this country?

Mr. BOVEE. That is correct.

Mr. ALLARD. Thank you. Thank you, Mr. Chairman.

Mr. PENNY. Thank both of you. We appreciate your participation in this morning's hearing.

We are going to move now to the final panelist, Ms. Brenda Branch, chairman, Hall County Commission, Gainesville, Georgia, and Mr. Ron Gaskill, executive director, Eastern United States Agricultural and Food Export Council, Camp Hill, Pennsylvania. We welcome you to the subcommittee and ask that you summarize your remarks as you wish. Your entire written statement will be included in the committee record. We will start with you, Ms. Branch.

STATEMENT OF BRENDA BRANCH, CHAIRMAN, HALL COUNTY COMMISSION, GEORGIA

Ms. BRANCH. Thank you. Good morning. My name is Brenda Branch. I am chairman of the Hall County Board of Commissioners and I have been chairman since 1993. I am the first woman to hold that position, I might add, and I am particularly happy to be here today because I am usually asked to speak just on that topic. I am honored to have this opportunity to share my thoughts with you regarding the importance in my county of the poultry and egg industries. In every respect, they are vital and thriving industries which

add value to raw commodities like corn and soybeans and add jobs to our income and our local economy.

We are a world class leader in the poultry and egg industries and we are well positioned to meet the growing domestic market for poultry meat. We are at least equally, if not better positioned, to meet the demands of the even faster expanding export market for American poultry meat, breeder stock, manufactured equipment, and related inputs and services involved in poultry and egg production, processing, and marketing. And should I ever forget those facts, I have two commissioners that remind me of it daily. Tom Oliver, my vice chairman, owns Chestnut Mountain Hatcheries; and commissioner Jimmy Echols owns a family farm with four generations on it. They grow peaches, apples, and poultry.

We are located only 50 miles northeast of Atlanta. Hall County is home to one of the Nation's most diverse local economies. We serve as a regional base for health care, insurance, legal services, retail trade, manufacturing, agribusiness, and recreation. We are very proud of the fact that our own Lake Linear will serve as the 1996 Olympic rowing/kayaking venue. We have gained much knowledge from the 35 international corporations which have facilities in Hall County. But we recognize that we are part of a global economy and we must at every occasion open doors of international opportunities beyond those which we have opened before. For example, the export of chicken legs and feet is very important to help keep the cost of chicken down at home. Agribusiness, led by poultry and egg companies in Hall County, reflects our county's diversity and world strength.

Hall County is fortunate to have an excellent combination of farsighted leaders; dedicated, hard-working people; necessary and sufficient resources; and positive attitude. These have contributed in my county and made it become a leading poultry and egg area in the United States. Hall County is considered the hub of Georgia poultry and egg industry and we have a $30,000 chicken monument in the county seat to prove that. Several interrelated components comprise the industry in Hall County. They are vertically integrated companies that include hatcheries, feed mills, poultry processing plants/further processing operations, and distribution service, parent and grandparent breeders, feed ingredient suppliers, broiler growers, table egg producers, transportation services for inputs and finished products, veterinary/health product suppliers and providers, we have consultants for management and marketing, tractor manufacturing and assembling, and equipment manufacturing.

To help put the importance of the poultry and egg industry in Hall County into perspective, please permit me to share with you certain economic statistics. Our county has a population of just over 100,000 within 392 square miles. We employ 46,000 workers in Hall County, 6,000 of which work directly with the poultry and egg industry. We have approximately 300 farmers. $925.2 million statewide is generated by the poultry and egg industry, 27 percent of these revenues as a share of the total manufacturing sector-related revenues. In Hall County alone, $152 million can be attributed to agribusiness.

As can be noted from these statistics, the poultry and egg industry is the leading revenue generator in my county. In fact, the relative importance of these businesses is becoming greater. And, as an elected official concerned about how to pay for public services, such as subtitle (d) landfills you all are familiar with, I can assure you that these industries are vital for maintaining our tax base. Without the poultry and egg industry and the dynamic economic ripple effect that this industry has throughout our local economy, Hall County would not be the leading regional economic center that it is today.

From a national perspective, the poultry export market has been expanding much more rapidly than the domestic market. Agribusinesses in Hall County have contributed greatly to this phenomenal growth. Between 1983 and 1993, the U.S. broiler chicken market increased from 12 billion pounds to over 20 billion pounds, an increase of two-thirds. While this growth is impressive, it does not match the growth in broiler exports which ballooned from 432 million pounds in 1983 to 1.966 billion pounds last year, or an increase of more than 350 percent.

Whether you are a business person carefully analyzing your markets or a locally elected government official, like me, you study past trends to give yourself an idea of what the future may hold. When I look, I see a future for the Hall County poultry and egg industry that must focus more and more on rapidly growing and promising export markets. As the county's chief elected officer, I am in a position to understand the tremendous importance of our poultry and egg industry as it competes nationally, and as it competes with companies in Brazil, Thailand, France, and China. I know that one-quarter of 1 cent per pound can make the difference in a sale locally, nationally, and internationally.

Mr. Chairman, we do not seek special assistance or Government subsidies for these economic entities. However, we do seek recognition and acknowledgement that value-added industries such as the poultry and egg industry are of growing economic importance to local economies like Hall County, Georgia, and can contribute a small step toward correcting the tremendous imbalance of international trade. And although we ask for no special Government provisions to help with the poultry and egg industry's success, we do ask that our Federal Government demonstrate a determined will when our global competitors unfairly take world poultry and egg markets or when importing countries arbitrarily and capriciously erect illegal trade barriers.

Mr. Chairman, I sincerely appreciate the opportunity to present these thoughts today to you and your subcommittee. Thank you.

[The prepared statement of Ms. Branch appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. Appreciate your testimony.

Next, Mr. Gaskill.

STATEMENT OF RONALD L. GASKILL, EXECUTIVE DIRECTOR, EASTERN UNITED STATES AGRICULTURAL AND FOOD EXPORT COUNCIL, INC.

Mr. GASKILL. Good morning again, Mr. Chairman and Congressman Allard. I am Ron Gaskill, executive director of the Eastern

United States Agricultural and Food Export Council, known more commonly by its acronym EUSAFEC. I am pleased to be here this morning to provide you with a view of the economic impact of export market development programs for high-value and value-added agricultural and food products as such programs are created and implemented by the four State-Regional Trade Groups in cooperation with the USDA's Foreign Agricultural Service.

In that my statement has been submitted for the record, I will just summarize a few of the points so we can move along.

By my appearance here this morning, I am also privileged to generally represent the views of the three other State-Regional Trade Groups, that being the Mid–America International Agri-Trade Council—MIATCO—in Chicago, the Southern U.S. Trade Association—SUSTA—based in New Orleans, and the Western U.S. Agricultural Trade Association—WUSATA—in Vancouver, Washington.

State-Regional Trade Groups are private, not-for-profit international trade development organizations whose regular members are the State departments of agriculture and the territories throughout the United States. State–Regional Trade Groups combine Federal resources of the Foreign Agricultural Service with resources of the State departments of agriculture and private sector firms to develop exports and export markets for value-added U.S. agriculture and food products. We have been doing this since approximately 1970.

The four State-Regional Trade Groups have actively implemented programs exclusively to increase exports of value-added food and agricultural products. We do not involve ourselves in bulk commodities generally. We are pleased that this emphasis was at least restated from EUSAFEC's perspective last week at a strategic planning retreat that we had whereby our mission statement was reaffirmed to "increase exports of food and agricultural products to improve business and farm income and to create jobs in the Northeast."

The matter today, more important, in years 1991 and 1992, the State-Regional Trade Groups summarized the economic impacts of their programs to determine their effectiveness in being sure they were achieving the missions of each of the respective organizations. The latest summary, which was prepared in November of 1993 and is attached as a copy to my statement, indeed confirmed to us that exports of value-added products through the programs at least that we develop (a) directly sustained over 145,000 jobs nationwide; (b) created 10,000 new jobs in rural and urban areas from the increase in export sales during that period; (c) generated $2.32 billion in revenue to more than 393 companies, 83 percent of which by SBA definition are considered small or less than 500 employees; and (d) increased branded export sales by 37 percent, a value of about $161 million over that same period.

To further determine where the economic benefits were being accrued at least from the EUSAFEC perspective, we did a survey of our company participants, particularly those that were involved in our program in 1992. The survey requested information about the locations of the processing plants or the warehouses, the number

of employees employed at each location, their union representation, if any, and the types of products produced at the various locations.

Again, attached as a second supplement to my written statement is a list of the locations in particular of plants in the Northeast. As can be seen, the list contains the names of several small- and medium-size towns but fewer major cities in the East. Of course you have to recognize that we have quite a few and certainly food processing is located there. But more importantly, it confirmed to us that EUSAFEC and its export development programs for value-added products do have a positive economic benefit for largely rural, but also for urban, areas of the Northeast.

Examples of firms which have increased employment directly as a result of their increase work to export their products are numerous and lengthy. Certainly as we speak here today, we are privileged in our conference room to be hosting a delegation of Chinese retail buyers from Hong Kong. We will have about 14 more companies that will be interviewing with them today and presenting products. I know for sure at least six of those firms have increased their gross sales by at least 25 percent over the last 5 years directly as a result of exporting and, henceforth, has had a very definite effect on their ability to employ.

We in the State-Regional Trade Group area are real deliberate to not only continue to build but seize the momentum involved in exporting of value-added food products. We are all in the process of reaffirming an initiative to launch a comprehensive education and training program for individual companies that want to get into exporting. That is something that we have been doing for the last 3 or 4 years but it is something we need to be a bit more deliberate at. Indeed, we are going to take that on and hope that companies will become more export capable. Of course the more capable they are, hopefully the more economically viable.

Not part of my written statement but further to the chairman's request for suggestions about export programs possibly for the 1995 farm bill, please allow me to offer the following. That is simply is an encouragement to consider stimulating exports, particularly value-added exports, in the farm bill by increasing export market development programs such as or similar to the market promotion program—MPP. The MPP is an acceptable "green box" program under GATT. I would hope that fiscal savings from subsidy programs such EEP, which is targeted as one for reduction under GATT, that some of the funds would be used to increase funding for acceptable market development programs. Certainly our competitors in other regions of the world very likely are going to do that and I hope that we would be able to keep pace with that policy.

Mr. Chairman and Congressman Allard, again I appreciate the opportunity to present the general views of the State-Regional Trade Groups on this matter. We appreciate your support and your continued interest in this important economic development topic. We look forward to responding to any questions that you may have.

[The prepared statement of Mr. Gaskill appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. Appreciate your testimony.

Ms. Branch, you indicated concern about the export practices of other countries or import barriers in place in other countries that at times make it difficult to compete. Could you be more specific about some of the impediments that you are struggling to overcome.

Ms. BRANCH. From what the industry has told me it is very difficult to get credit and that if credit is made available they would like very much for it to be simplified and not nearly as much redtape. Also along the same lines with the export procedures, that all those regulations need to be simplified and not so complex. And also that the markets are open and everyone has a level playing field.

Mr. PENNY. Have they expressed to you any specific markets where they believe the U.S. industry is particularly disadvantaged?

Ms. BRANCH. In the European market.

Mr. PENNY. European market. Is it difficult to break in because of import limitations put in place by the Europeans? Do we know, and I am not clear on this point, but in the GATT agreement are we going to be benefited by some changes on the part of the Europeans peculiar to processed meat products?

Ms. BRANCH. That, I would have to refer——

Mr. PENNY. We can look into that. I thought maybe the industry had shared with you their analysis of the GATT agreement in regard to meat imports.

Ms. BRANCH. I think they are encouraged by that.

Mr. PENNY. Thank you.

Mr. Gaskill, it seems to me that we have held a lot of conferences through the Foreign Agricultural Service for the benefit of small firms attempting to get into the export market. Is there some sort of computer program that could be implemented that businesses could access? Has anyone attempted to provide a computer service of sorts to these firms so that they can get through some of the paperwork headaches, but also to maybe give them some glimpse of the export potential for certain types of products?

Mr. GASKILL. Mr. Chairman, there certainly are some computer programs but I am not sure whether they directly address the paperwork requirements or what have you. But most importantly, one of the things a firm has to do is clearly evaluate its ability to export. At any given time, it may or may not be ready. Certainly there are self-help computer-type programs in particular developed by the Department of Commerce that are very applicable to agriculture and can be used. The CORE program is one that if a company will answer the questions as it goes through the process on a computer, it certainly can gain for itself a self perspective as to not only where it is at but what it needs to do to improve its infrastructure and be able to export. So, yes, they are available.

Mr. PENNY. How do you rate the value of the conferences that the USDA has sponsored? I assume you are quite familiar with the conferences that have been held in your region.

Mr. GASKILL. Right. Actually the USDA holds those through us or other organizations like us.

Mr. PENNY. Do they contract with you essentially?

Mr. GASKILL. That's correct. When they talk about doing the conferences, most of those conferences are done by the four State–Re-

gional Trade Groups, primarily because we are local and more close to the various geographical areas of the country. The conferences, we would do evaluations of every conference that we do. We want to get an evaluation from every company that has participated, every person that is there. I would say overwhelmingly that there clearly has been value to them either in deciding the company is ready and wants to export or in deciding that, no, it is not ready at this point in time to export. In either case, it has nonetheless made a very deliberate decision which is a step in the right direction.

In fact, we feel that the conferences have been so effective that we, as I indicated earlier, want to more or less formalize training and education for companies to better prepare, not only new to export companies, but also veteran exporters to help them become aware of new market developments and to take advantage of new market opportunities where they at this point they may not actually be considering targets. Not only that, I think we are going to improve the training further by what I consider going the next step, and that is to help companies on an individualized basis. It is one thing for them to go to a seminar and gain a lot of information and get a perspective, but a lot of times it is a bit more difficult for them to take the next step to put that perspective into practice in their own business. We want to be able to help them do that. So I think that would suggest to us that we have seen it be of big benefit and, in fact, we see it as a major way to increase exports from the United States.

Mr. PENNY. Do you also control the decision on MPP assistance in your region?

Mr. GASKILL. We control a portion of it.

Mr. PENNY. And how is that determined? As an association, do you submit a funding request to USDA?

Mr. GASKILL. Yes.

Mr. PENNY. And in terms of the help that flows to firms in your region, what portion of that flows through your association?

Mr. GASKILL. For money that goes directly to firms or is used particularly in the branded program, I think you may be referring to that, I would say most in the Northeast comes through the Export Council. I am not aware of any other organization that is helping with branded funds. So I would say virtually 100 percent.

Given that, clearly we have a system of rating companies. First of all, they are making a request to us just as we're making a request to USDA. USDA gives us an allocation and with that allocation then we have to decide which portion of that is going to go to the branded program and which portion is going to go to generic activities. The system that we have is a very impartial rating system where each company's application is rated based upon its intended increase of exports, its dollar match to make sure that those companies that are going to contribute more to their promotion are going to probably rate higher than those that don't. We look at their past experience, have they been successful. If they haven't been successful, then they need to determine why they haven't and make some adjustments so that they will be able to continue further in the program. So we do a very comprehensive evaluation and our State department of agriculture members do that evaluation.

Mr. PENNY. Is part of the evaluation focused on the growth in the firm? It seems to me, part of our effort here ought to be geared toward increasing total sales through the export market and we ought to be somewhat skeptical of continuing MPP assistance to firms that don't grow in total size based on a larger volume of exports. What can you say generally about the success of the program in that respect?

Mr. GASKILL. I would say overall it has been very successful in doing that.

Mr. PENNY. That you can document that total volume of production and sale has increased because of the MPP export assistance?

Mr. GASKILL. Yes. Undoubtedly. We do ask for all company sales as well as export sales specifically.

Mr. PENNY. So you can monitor the growth pattern.

Mr. GASKILL. Exactly.

Mr. PENNY. That's very helpful.

Ms. Branch, for the poultry industry, what share in your county, if you have the statistics, what share of their production is exported?

Ms. BRANCH. No, I don't have that statistic. I want to think it is 4 to 5 percent.

Mr. PENNY. So it is not a huge portion right now?

Ms. BRANCH. Not right now. We would like for it to be much larger.

Mr. PENNY. So the vast majority is distributed domestically. The NAFTA agreement with Mexico it seems to me is an agreement that may be specifically beneficial to the poultry industry.

Ms. BRANCH. It is. And our poultry industry supported NAFTA for that reason.

Mr. PENNY. We have this market promotion program which I have been asking Mr. Gaskill to speak to. Do you know of firms in Hall County that are involved with the market promotion program? It is a Federal Department of Agriculture program which provides some financial assistance to firms that are trying to break into foreign markets.

Ms. BRANCH. No.

Mr. PENNY. It is used in a variety of ways. Some of it is rather generic in terms of advertising the product. Others, more specific in terms of working through the bureaucratic maze on the other side of the ocean.

Ms. BRANCH. Creating jobs.

Mr. PENNY. Well, we try. But it has been a program that has come under some scrutiny and we have tried to tighten it up as well to overcome some of the objections that have been raised. I think through these regional associations there is a general sense that the smaller firms are receiving the bulk of the benefit. There was some concern that the program was being used to a large extent by larger companies that may not need the help. Hopefully, we are overcoming those problems. But you are not specifically familiar with the firms in the poultry industry in your county that are engaged with the market promotion program?

Ms. BRANCH. No.

Mr. PENNY. Thank you.

Mr. Allard, any questions you might have.

Mr. ALLARD. I was curious, I direct this first question to Ms. Branch, where do you export most of your poultry products?

Ms. BRANCH. I believe the major export markets right now are Russia, Poland, and Japan. Those are the biggest right now. What I am told is that they can change at any moment.

Mr. ALLARD. How much export do you do to Canada?

Ms. BRANCH. That I don't have. I know there are some difficulties. But I can get that figure for your office.

Mr. ALLARD. We are having some problems with Canada particularly as far as wheat is concerned with some of our export provisions. If we, which apparently we are going to do, limit the amount of Durum wheat that is imported into this country, one of the industries that I had heard could be targeted by Canada would be the poultry industry. I wondered if you had any concerns about that.

Ms. BRANCH. It would be a concern. From what I am told, there are not barriers but they simply don't let the poultry in.

Mr. ALLARD. So they don't accept any imports from the United States?

Ms. BRANCH. Not period but about 95 percent of their market is retained for Canadian poultry, I would imagine like they do with most jobs and all sorts of things.

Mr. ALLARD. I see. So they raise most of the poultry then in Canada and they do everything to preserve that market and prevent your marketing of poultry products into Canada.

Where does your competition come from in exports of poultry? So when American products show up in Russia and the Baltic States and Japan, where you mentioned, what other countries do you see products coming into those areas from?

Ms. BRANCH. Mainly from the European Community. France is a large competitor.

Mr. ALLARD. Now it is my understanding that France subsidizes a lot of their agriculture. Are there pretty heavy subsidies on poultry?

Ms. BRANCH. Yes. I think all European countries subsidize.

Mr. ALLARD. So you do have concerns about being able to compete with those countries and that is where you are focusing a lot of your comments. Because you are having to deal with that competition on a day-to-day basis in those other countries. Are they doing things on imports in the Russian and Baltic areas that favor European products as opposed to American products?

Ms. BRANCH. We are not sure about that. We have been opening some markets there, especially in the emerging Eastern Bloc countries.

Mr. ALLARD. I think if you get a feel of some things going on there in that regard, I think sharing them with this committee would be of value.

The other thing on the market promotion program, Mr. Gaskill, there is sort of a standard rule of thumb, that if you have $1 billion that you market overseas that it is going to create 20,000 jobs in this country. Do you have any way of sharing with us the benefits of the market promotion program as far as U.S. jobs are concerned?

Mr. GASKILL. U.S. jobs overall, the only thing I can refer back to is the formula that you just indicated, $1 billion of exports sup-

ports 27,000 jobs. Basically, that is all I have heard. The only other thing I can suggest is, indeed, what we have already provided with regard to at least what the State-Regionals have done. We can get that for you if you would like.

Mr. ALLARD. Sometimes with these rules of thumb somebody just threw that out and there is not a lot of evidence to back up those assertions. Do you have any reason to think that is not an accurate assertion?

Mr. GASKILL. I truly don't. I don't have any way to validate that not being an economist myself. But what I can validate for the most part are the regional figures at least that we have provided here. We didn't use a formula rule of thumb to estimate that. We do an evaluation of every branded company and every generic activity that involves companies after we do it. One of the things that they have to provide to us is their assessment of what the impact of that has been particularly on jobs to their firm. So the numbers that I am sharing with you are as hard as we can possibly get them in that they came directly from the companies themselves and so they really don't depend upon any rule of thumb.

Mr. ALLARD. Thank you. That's all I have, Mr. Chairman. Thank you.

Mr. PENNY. I think that wraps things up for this morning. We thank the last two panelists for their participation.

With that, we stand adjourned.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

BOB NASH, UNDER SECRETARY
SMALL COMMUNITY AND RURAL DEVELOPMENT
UNITED STATES DEPARTMENT OF AGRICULTURE
Before the
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
HOUSE COMMITTEE ON AGRICULTURE
April 28, 1994

Good morning, Mr. Chairman and Members of the Committee, and thank you for this opportunity to discuss high-value agricultural exports as they relate to the economy of rural America. Those exports are making a valuable contribution to the rural economy, both through creation of jobs and expansion of markets for agricultural products.

It is essential that we continue to assist rural communities in providing the basic amenities necessary for a safe and decent standard of living. It is also essential, however, that we provide a New Direction in assisting rural areas build a future that permits them to compete in a rapidly changing economy.

There is nothing more vital to the future of rural America than the creation of new jobs, and that can only be done through the formation of new business enterprises in rural areas. We must be in a position to assist new business opportunities, especially those that are based on the use of agricultural commodities and natural resources. There is no reason value-added products cannot be produced at less cost in many rural areas, rather than shipping to commodity to other areas to be processed.

This is the reason that the Secretary has moved the Alternative Agricultural Research and Commercialization (AARC) function and the Agricultural Cooperative Service to my office. Combining these efforts with he business-related financial assistance programs of the Rural Development Administration (RDA) into the proposed Rural Business and Cooperative Development Service is one step in the direction of taking better advantage of the financial and intellectual resources available to the Department of Agriculture (USDA) and making them work more effectively for rural economies.

Budgetary Support

We recognize that government cannot, and should not, serve as the primary tool of economic development. The private sector has the principle role in creating new businesses and new jobs. What we can do, however, is use our resources to encourage the active participation in the private sector in rebuilding rural economies, and that is the policy of the Administration.

With the policy direction in mind, we have asked for increases in our business assistance programs in the Fiscal Year 1995 budget now being considered by the House and Senate Appropriations Committees.

For business and industry loan guarantees, we have requested an increase of almost $900 million. This increase can be achieved with minimal budgetary effect because the program guarantees private sector loans at commercial rates and, because the program is well managed, it has a small default rate. Using the program gives us the advantage of involving the private sector in rural areas and acquaints private lenders with the opportunities that exist in rural areas.

We also have requested $125 million, an increase of $25 million, in the intermediary re-lending program, which makes loans to intermediary groups that, in turn, re-lend the money to small businesses in the area they serve.
We have also requested that the rural enterprise grant program be increased to $50 million from $42 million. These grants are to assist small and emerging businesses in rural areas.

We will be looking for new opportunities to use the programs in conjunction with the efforts of the AARC Center and those of the Cooperative Service (CS).

We also are actively examining the potential of involving other lenders, such as the Farm Credit System, in these new opportunities. We feel institutions such as this can play a very active role in financing some of the new business opportunities, especially those based on agricultural production.

This can be especially important because, as you are aware, nearly three-fourths of the smaller farm producers also need off-farm income to survive. This is another way we can help assure some stability and continuity in our rural communities.

Today, Mr. Chairman, I want to report to you on some of the things that we have been doing in supporting high-value agricultural exports, in creating jobs and stimulating economic activity, and developing new industrial markets for farm and forest materials. They range from biodegradable lubricants and biodiesel to structural composites and starch encapsulated pesticides.

I know this is of interest to you, Mr. Chairman, because you were one of the key supporters of the Alternative Agricultural Research and Commercialization (AARC) Center legislation.

Boost to Rural Employment

This hearing is particularly topical in light of a recent report on rural employment by the Department of Agriculture's Economic Research Service (ERS). The report said that, for the economy to continue its strong performance in 1994, ERS research "suggests that rural employment growth depends more strongly than general employment on U.S. exports."

When we look at trade in high-value agriculture products, we find that the United States lags the rest of the world. In 1992, world trade in high value agricultural products totaled $140 billion or 73 percent of total trade, while bulk or raw commodities totaled $51 billion. In contrast, U.S. exports of high value agricultural products 1n 1993 totaled $24.0 billion or 56 percent of total U.S. agricultural exports, while bulk commodity exports totaled $18.6 billion.

Agencies for which I am responsible have had or currently have a role in promoting high-value exports. Precise measures of some of those roles are difficult to obtain because we often are dealing with private-sector firms that have certain understandable proprietary interests in the details of their operations. We do have enough other, often anecdotal, evidence, however, to know that significant contributions are being made.

Contributions to Trade

One example illustrates how USDA agencies can jointly help establish an operation that benefits agriculture and the national economy.

Several years ago, the Cooperative Service provided several feasibility analyses for a newly-formed group of cotton producers in Texas who wanted a steady and higher-valued market. The analysis proved favorable; FmHA approved a business and industry guaranteed loan, and the cooperative built a plant of considerable size in the cotton-growing area. Several hundred jobs were created.

A contract for high-quality denim from the plant was negotiated with Levi Straus, which exports extensively. The operation was such a success that the loan was repaid well in advance and, we understand, cotton from that area is still going abroad in large amounts as denim clothing.

Other FmHA/RDA Efforts to Finance Exports

There are several other business and industry projects that are contributing to high-value exports. Some examples:

- A Texas seed company specializing in grass and forage seed varieties that thrive in hot, dry climates sells 25 percent of its production in the Mexican market.
- Two Maine blueberry producers together sell $38 million in berries in foreign markets.
- An Ohio ethanol producer exports almost $5 million worth of distillers dried grain with solubles, a byproduct of the distilling process.

- A South Carolina company exports tea that accounts for 15 percent of annual sales.

- A Minnesota manufacturer of pneumatic grain handling equipment ships two-thirds of its production abroad, primarily to the Mideast.

- A West Virginia company exports several million dollars worth of lumber a year.

USDA loans financed all these operations and helped create jobs and add to the communities' economic stability.

Assistance to Cooperatives

U.S. cooperatives had exports totaling $4.1 billion in 1990. Sixty percent or $2.5 billion was comprised of bulk, undifferentiated commodities (primarily grains, oilseeds, cotton).

CS staff performs market research and provides technical assistance directly to cooperatives, as well as compiling various types of market and economic information for dissemination to cooperative exporters. This is an important role in adding value to products as a means of enhancing returns for producers and for rural communities, and as a means enhancing U.S. competitiveness in world markets.

The CS staff is currently investigating ways to develop additional mechanisms to enhance cooperative competitiveness in domestic and international markets and to coordinate with other government, private, and nonprofit entities to develop and sustain cooperatives as key components in rural revitalization.

Some CS Successes

In 1993, CS assisted Ocean Spray in developing a profile of the Mexican juice drink market and strategies for market entry in response to rising consumer incomes and opportunities arising from NAFTA. CS has completed similar profiles of markets in Europe, the Middle East, and Japan, as well as a research report detailing market entry strategies in Southeast Asia for a variety of high value products marketed by U.S. cooperatives.

Also in 1993, CS completed a study (Dari-MAC) of the potential for marketing agencies in common (joint marketing arrangements) to assist dairy cooperatives in exporting both bulk commodities (non-fat dry milk) and high-value specialty products. Several groups of dairy cooperatives around the country are currently studying the feasibility of applying this model to their specific marketing strategies.

CS has also sponsored a conference and published proceedings on international business strategies for cooperatives featuring "how to" information on the selection of sales intermediaries and distribution agents; licensing; franchise partners; and strategic alliances. In addition, CS publishes a directory of cooperative exporters for distribution to potential foreign buyers and U.S. agricultural and commercial attaches around the world.

NAFTA, GATT Gains

In many areas of the country, particularly the Great Plains, state and regional cooperative development specialists are basing their rural revitalization efforts on an expected boom in U.S. trade in high-value products in the wake of recently completed NAFTA and GATT agreements.

The North American Bison Cooperative, with 182 members in the Dakotas, Minnesota, Wyoming, Montana, and Canada, has a new processing plant in New Rockford, North Dakota, and expects to export meat to European as well as American markets.

In other areas, cooperatives help keep the returns from value-added processing in the local economy. For example, with the assistance of CS development specialists, sea urchin divers in Port Orford, Oregon, have banded together to form Blue Water Harvesters Cooperative in order to maintain a fishery as a permanent, year-round source of activity and to save the town's only urchin processing plant. During its first year of operation, the cooperative is expecting to record $3 million in sales, primarily to Japan.

CS also provided assistance early on in the formation of Watermark Craft Cooperative in North Carolina. Watermark is a highly-successful, widely-imitated cooperative in which low-income and battered women improve their economic and living situations by producing and marketing handi-crafts made from native materials. Watermark crafts are now sold across the United States and in Japan, Canada, England, Holland, and France.

In the past, CS has also helped organize cooperatives which have expanded into international markets through ties with other companies. A good example is the cotton processing plant in Texas that I mentioned earlier.

AARC Center Initiatives

Under reorganization plans in USDA, the AARC Center will be associated with the Rural Community and Economic Development programs. This linkage will highlight the AARC Center's mission to revitalize rural America through commercialization of resource base value-added technologies.

In 1993, the AARC Center invested $9 million, matched by $25 million from private partners, in 23 projects to promote new and environmentally friendly uses from agricultural materials. The AARC Center requires at least a 50-percent match for these pre-commercial activities from the private sector partner and negotiates a payback arrangement for each project. Some projects involve a royalty arrangement while others involve equity in the firm. In 1994, the AARC Center is negotiating the final arrangements for another 20 plus projects.

Jobs and income in rural communities will be created as the commodities are taken from the farm gate through the processors, the wholesalers and retailers. Much of the agricultural and forestry materials may be processed in rural areas because of the bulky nature of the materials being processed.

If all 23 funded projects are successful, an estimated 1,700 jobs will occur within 3 to 4 years. If these projects create whole new industries -- which some may -- several thousand more jobs could be created in the future.

New Uses for **Agricultural Materials**

Examples of value-added export opportunities either underway or being produced by AARC Center partners include the following:

- An environmental remediation technology uses a powder derived from cotton lint to encapsulate the hydrocarbons from an oil spill. The application of this technology to oil spill problems around the world looks very promising. Negotiations are now underway with representatives of Kuwait.

- Another firm is producing biodegradable vegetable oils from crambe and rapeseed for use as supplemental transmission oils, cutting oils or hydraulic fluids. Five European car manufacturers now recommend the use of this transmission oil supplement in their vehicles.

- The AARC Center recently signed an agreement with Agriboard Industries of Fairfield, Iowa. They plan to make structural panels from agricultural fibers such as wheat straw or grasses. This product appears to have a promising future in lumber-short areas like the great plains of the United States or in foreign countries like India or China.

Other examples include:

- Phenix Composites' "Environ" made from soybean meal and old newspapers into a product hard enough to be used for making furniture and decorative pieces.

- Gridcore's spaceboard made from kenaf or low grade wood;
- Agrigenetic's and International Fora Techs' lubricating and cosmetic products produced from lesquerella oil;
- Midwest Grain's degradable plastic-like polymer;
- Aquinas Technology's non-poisonous windshield washer fluid made from ethanol;
- Agro-Fibers' "Roll & Grow" seed mats from kenaf for use to quickly establish lawns and gardens;
- International Poly Chemicals' intermediate chemicals from corn; and
- Biotechnology Research and Development's non-toxic biodegradable pesticide carrier from corn, wheat, or potato starch.

Program Linkages

Efforts to promote old and new uses for agricultural products are most likely to succeed if they can be linked to the trade, environmental, rural development, commodity, and research initiatives already underway in USDA. In most of these areas, the link is easy to identify and clearly complementary. For example, new uses can be tied directly to rural development efforts if we are willing to emphasize local value added in our efforts to promote feed stocks and energy from agriculture.

This same complementary link can be forged with commodity concerns interested in expanded markets and diversification opportunities. New-use links to the agricultural research program also make sense; improved technology and the bench science underlying it are critical if new and expanded uses are to pass the market test.

On a similar note, if we can interest American industry in new and expanded uses for farm products, chances are that we can interest industry abroad. This suggests a natural partnership with agricultural trade interests concerned with reinforcing the United States' competitive position and expanding sales abroad.

Without closer links to these other initiatives, the probability of success in promoting new uses would be significantly smaller. It will prove more difficult to generate and sustain policymaker interest and program-manager support, as well as industry involvement. Competition for limited public funds available for use in agriculture is likely to be fierce and new-use efforts could face indifference or opposition from other agricultural interests unless the complementary nature of new-use efforts are clear.

Looking Ahead

Mr. Chairman, new materials, new products, new uses are all key ingredients to making the most of our natural and agricultural resources. Market analysis, feasibility and organization are needed in the developmental stages, and credit is essential to taking the final step to the marketplace.

At USDA, we have the ability, and interest, and enthusiasm to help bring all these factors together to help renew rural America, to give it jobs and incentives and services so that rural Americans can claim a rightful share in America's success.

Thank you.

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Statement by Christopher Goldthwait
General Sales Manager
Foreign Agricultural Service
U.S. Department of Agriculture
Before the
Subcommittee on Foreign Agriculture and Hunger
House Committee on Agriculture

April 28, 1994

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss high-value agricultural exports and how they contribute to the rural economy. Today's topic combines two of the top priorities set by Secretary Mike Espy for the U.S. Department of Agriculture -- increasing exports of U.S. agricultural products and improving the economic outlook for rural America.

Importance of High-Value Product Exports

The Department, through its Foreign Agricultural Service (FAS), is working diligently to help U.S. producers, processors, and exporters compete in the fastest-growing segment of world agricultural trade -- high-value products.

High-value products today represent over two-thirds of total world agricultural trade, up from 54 percent in 1985, and this share is projected to climb to 75 percent by 1998. This is the growth sector in world agricultural trade -- the future for U.S. agricultural exports. High-value product exports generate income for farmers who produce the raw materials, as well as other farm employees, most of whom live in rural communities. In addition, many of the off-farm jobs that are supported by high-value products -- processing and shipping for example -- also are found in rural communities.

Traditionally, the United States' strength has been in the export of bulk commodities, while the European Union dominated the market for high-value products by heavily supporting the production and export of these products. But the introduction of the Targeted Export Assistance Program in the 1985 Farm Bill, and its successor, the Market Promotion Program, introduced in the 1990 Farm Bill, essentially marked a new U.S. policy commitment to compete aggressively in this sector. We now have a market development program that targets over three-quarters of its resources at foreign consumers of high-value products to create long-term export opportunities for U.S. agriculture.

Since 1986, U.S. exports of high-value agricultural products (including intermediate and consumer-oriented products) have doubled, reaching a record $24 billion in fiscal 1993. Another record is expected this year. While high-value products made up only about one-third of total U.S. agricultural exports 10 years ago, last year they accounted for 55 percent of those exports. High-value products have accounted for nearly all (85 percent) of the growth in U.S. agricultural exports since 1985 and have more than kept pace with global growth trends.

Future Prospects and Current Activities

The future for high-value exports will be made even brighter with the implementation of the Uruguay Round Agreement under the General Agreement on Tariffs and Trade. Studies suggest that the increase in world income as a result of this agreement could be as much as $5 trillion over 10 years. This increase in income will increase the demand for agricultural products, particularly for income-sensitive, high-value products like meat, fruits, vegetables, and other specialty crops. And the export subsidy limits will help us to get at

hidden European Union processing subsidies that give them an unfair edge in the high-value area.

The North American Free Trade Agreement will help us increase our high-value exports as well by assuring preferential access for U.S. products to the ever-growing markets of Mexico and Canada.

Agreements provide us with opportunities to increase our exports. We also must take the initiative to go out and compete in the marketplace. Here at home we are working to ensure that all potential U.S. exporters -- especially small and new-to-market companies, including those in rural areas -- have an opportunity to participate and benefit from international marketing opportunities.

FAS is working both abroad and here at home to help U.S. producers identify and tap into the world's booming trade in high-value products. We have established priority markets for high-value products. Examples include Asian markets such as Japan, South Korea, Hong Kong, Taiwan, Indonesia, Malaysia, the Philippines and Thailand; Middle Eastern markets such as Saudi Arabia and the Gulf States; our partners in the North American Free Trade Agreement -- Canada and Mexico; and other traditional trading partners such as the European Union and Australia. We also have identified top sales prospects for each of these markets. For example, top prospects for the Japanese market include beef, fruit, and convenience foods of all types. For South Korea that list includes beef, processed fruits and vegetables, juices, nuts, and snack foods.

Assistance for Small and New-to-Market Companies

Since 1992, FAS has approved funds through the MPP for educational seminars

targeting small and economically disadvantaged businesses. This on-going effort is being conducted in coordination with four State Regional Trade Groups--Mid-America International Agri-Trade Council (MIATCO), the Eastern U.S. Agricultural and Food Export Council (EUSAFEC), the Western U.S. Agricultural Trade Association (WUSATA) and the Southern U.S. Trade Association (SUSTA). These groups were established to support FAS efforts to coordinate international marketing programs for processed foods and other regional agricultural products. These partnerships combine the resources of the private sector and State Departments of Agriculture with program and financial resources of FAS to expand exports of U.S. agricultural products and to educate companies in export marketing.

Another aspect of MPP which I should mention is the recent changes in program regulations made by this Administration. Among other things, these changes create a priority for small and medium-sized businesses in branded promotions.

Our outreach effort has been successful in allowing all segments of U.S. agriculture -- producers, processors, and transporters -- to participate in efforts to build export markets by educating them about export opportunities, information sources and services. Last year, for example, the State Regional Trade Groups conducted over 40 educational seminars, reaching approximately 1,200 people in 38 states. In 1992, these seminars educated more that 1,300 people from 44 states.

The State Regional Trade Groups, in cooperation with FAS, continue to recruit small companies to the seminars and to encourage them to participate in our export assistance programs. For example, we have worked hard to recruit companies involved in producing and exporting catfish, poultry, red meat, and fruits and vegetables -- companies that

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frequently are located in rural areas. As these companies succeed in the export business, they support local jobs and add value to locally produced raw products.

In total, the Market Promotion Program supports the export efforts of over 800 companies, targeting over 100 countries for sales of over 150 different agricultural products. A large portion of USDA export program assistance and trade servicing focuses on high-value products, sourced and often further processed in rural areas.

<u>Future Plans</u>

Let me conclude by looking ahead. Are there things that we can do to stimulate more growth in rural areas as we execute our export mission? This is a question Secretary Espy is examining very seriously.

Most immediate on our agenda is Secretary Espy's May 5-7 retreat -- a 3-day gathering of key department officials to discuss what the Department needs to achieve over the next two decades and ideas about how to get there. Among the five themes for this conference are rural development and export development. While the retreat is not a decision meeting, we will undoubtedly devote much attention to the linkages between the two objectives. This hearing is certainly timely in suggesting issues and ideas for examination by the Secretary and his top staff in an undistracted setting.

Another upcoming event is the legislatively mandated review and redrafting of our Long-Term Agricultural Strategy (LATS). As before, we will be drawing on all parts of the Department that have a potential contribution to export growth. This includes agencies under Secretary Nash's purview that have rural development as their primary mission. One possible option of our LATS exercise is to create a permanent working group to coordinate more

effectively the various efforts of the Department to draw rural enterprises into export activity; to examine and pursue reductions in the obstacles and bottlenecks that limit agricultural exports, especially from small producers and processors; to examine and encourage what these businesses can contribute to our export goals, and as a mechanism for generating growth in rural food and food processing industries.

Also, there is the review we have begun of all of our export programs as we look forward to a new farm bill in 1995. Again, let me refer to MPP. We have convened a USDA task force to examine further program changes. We have asked program participants themselves to convene a similar, independent task force. From our review of the findings of both these task forces, which is now ongoing, we will develop specific recommendations to the Secretary as to how to strengthen MPP even further.

There are initiatives of a different type that also have the potential to involve rural enterprises. I have in mind our GSM-102/103 Emerging Democracies and Credit Guarantee program for facilities. The idea behind this program is insightful and forward-looking: that the Commodity Credit Corporation (CCC) could provide credit guaranties both for the commercial sale of U.S. agricultural commodities and for the sale of equipment to upgrade facilities to receive, handle, store, and distribute those commodities in Emerging Democracies. One-stop shopping, so to speak. Yet none of us--neither the Congress nor the Department--anticipated the obstacles we would face in adapting the GSM-102/103 program intended for agricultural commodities--to the export of capital goods. This is a program with significant potential benefit for rural development, through increased commodity sales facilitated by such capital improvements, and through the sale of capital goods manufactured

in America's rural communities. This is one program where undoubtedly we will be suggesting changes in the 1995 Farm Bill process.

Finally, there may be additional ways FAS can use its export expertise to inform and interest rural enterprises as to export opportunities. Through coordination with the Extension Service, which has already undertaken some activity in this direction, and coordination with ASCS, which has generously offered us the use of their county office facilities, we plan to develop and test a program under which we will send our experienced staff into selected rural areas to hold export seminars and give individual export briefings to firms interested in entering the export arena. We will target ten counties during the remainder of FY 1994 and early in FY 1995. We will examine whether these efforts reach an essentially different audience of export-interested firms in rural areas. We will examine the response and our success in helping these firms get started exporting. Depending on the response and success, we will consider allocating funds in our FY 1996 budget to turn this into a regular outreach activity.

Undoubtedly, the remainder of this hearing, and Secretary Espy's upcoming retreat, will generate many additional ideas we can examine and undertake to promote the often parallel goals of export and rural development. On behalf of Secretary Espy I welcome your comments and suggestions and I look forward to working with you, Mr. Chairman, and the rest of the Committee to improve these programs, to increase exports of high-value agricultural products, and to work towards improving the economies of rural America.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions.

TESTIMONY OF

EUGENE L. BOVEE
SENIOR VICE PRESIDENT
AND SENIOR CREDIT AND ADMINISTRATIVE OFFICER

of

CoBANK--NATIONAL BANK FOR COOPERATIVES

Presented
to the
House Subcommittee on Foreign Agriculture and Hunger

April 28, 1994

Mr. Chairman and members of the committee, my name is Gene Bovee. I am a senior vice president and senior credit and administrative officer for CoBank's International Banking Group.

CoBank is part of the Farm Credit System. The bank provides financial services to farmer-owned cooperatives; rural utility systems--including electric, telecommunication, water, and waste disposal systems; and to facilitate the export of U.S. agricultural products. With $14 billion in assets and customers doing business throughout rural America, we are keenly interested in federal policy issues that affect agriculture, agricultural exports and rural communities.

Since 1982, CoBank has provided over $18.5 billion in financing to support export sales of 30 agricultural products to 40 countries. This financing is provided through a network of 270 correspondent banks located in 65 countries. CoBank has a unique role in promoting U.S. agricultural exports. We are the only financial institution in the world that markets U.S. agricultural products in conjunction with our lending programs.

CoBank is the most active participant in the Department of Agriculture's export loan guarantee programs--accounting for nearly 50 percent of all the guarantees issued. For the past several years, CoBank has been the only U.S. bank consistently active in these programs.

Whether we like or not, all of us are affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete in that global economy.

In 1980, farmers received 37 cents of each dollar spent on food at grocery stores. That return for farmers has been declining every year since 1980 and today is about 25 cents for each consumer dollar spent. More that at any time in our history, farmer-owned cooperatives appreciate the importance of capturing the profits to be realized by adding value to their own products, and marketing these value-added products in the U.S. and in other countries.

EOjc/PB/362

I would now like to outline specific proposals that will help ensure the availability of financial services needed by U.S. agriculture to compete effectively in international markets. These proposals would provide financing needed by farmer-owned cooperatives to expand their value-added operations in foreign markets while also providing a new source of export financing for value-added products not traditionally handled by cooperatives.

Specifically, Congress should eliminate the barriers that exist for farmer-owned cooperatives in obtaining financing for international business activities in which they have an ownership interest. We propose that CoBank be authorized to provide financing of joint ventures, partnerships and similar arrangements where cooperatives have an ownership interest.

Under our proposal, when one or more eligible farmer-owned cooperatives owns at least 50 percent of a partnership or joint venture, the bank would be able to provide financing directly to that entity. In cases where farmer-owned cooperatives have less than a 50 percent ownership stake, financing would be limited to financing the organization's needs up to the percentage of ownership held by eligible cooperatives.

Many farmer-owned cooperatives are seeking new business opportunities through joint ventures and partnerships in foreign countries and in the U.S. Such strategic alliances are common for many businesses and essential for farmer-owned cooperatives seeking to enter new markets or create new sources of profits for farmers by adding value to agricultural commodities.

Current law--which did not contemplate today's economic environment--inhibits farmer-owned cooperatives from entering into such arrangements by restricting the ability of their traditional lenders, the Banks for Cooperatives, from providing needed financing. The effect of this limitation is profound since the Banks for Cooperatives--including CoBank--provide about 85 percent of all the credit extended to farmer-owned cooperatives.

I will provide some real-life examples of how this authority would be used.

In August, CoBank sponsored a series of meetings in Mexico City involving representatives from about 40 U.S. farmer-owned cooperatives, Mexican government officials, and Mexican

agricultural leaders. Since that time, the bank has been involved in discussions with several U.S. cooperative customers with promising plans to expand their markets in Mexico.

One of these customers is a fruit processing cooperative that has an opportunity to ship concentrated juice to Mexico. A large Mexican food distributor has proposed to form a joint venture with the cooperative to reconstitute the juice product and package it into retail sized units for local distribution.

A group of dairy cooperatives in Texas and other Southern states are considering investment opportunities in a joint venture to allow them to increase fluid milk sales to Mexico for further processing into products such as ice cream for sale into the local markets.

A Midwest cooperative has already made an initial investment in a Mexican food distribution firm in an effort to increase sales of processed meat products into the Mexican market. The question has been raised about the bank's ability to participate in financing the expansion of this and other such partnership arrangements.

Another Midwest cooperative is proposing to enter into a partnership with an international grain company to produce and sell a food product to governmental entities to be used in famine relief efforts.

Under current law, CoBank cannot finance these projects. If viable businesses like these are not developed by farmer-owned cooperatives, U.S. farmers will lose out on new markets for their products. In addition, much of the economic activity in the U.S. that is stimulated by increasing exports will also be lost.

It is estimated that each $1 in U.S. agricultural exports generates an additional $1.40 in related economic activity. Each $1 billion in bulk agricultural exports is estimated to create 21,900 jobs. We estimate that each $1 billion in value-added export sales creates about 28,500 jobs. When a U.S. farmer-owned cooperative is involved in processing and exporting an agricultural product, more of the financial benefits are realized by the farmer.

EOjc/PB/362

To facilitate the sale of additional agricultural exports, we propose that Congress authorize CoBank to finance the sale of any agricultural product originating in the U.S. Except for agricultural products purchased by the states of the former Soviet Union, current law limits CoBank to financing only those exports that originate from agricultural cooperatives.

Our proposal would make U.S.-based financing more readily available to support export sales of products not traditionally handled by cooperatives. In many cases, this will involve value-added products, such as processed meat, fruits and vegetables.

Beginning in 1990, a clear trend was established. As a percentage of all U.S. agricultural exports, value-added is increasing and bulk is declining. In 1993, value-added agricultural exports accounted for almost 60 percent of the total.

Under the trade financing provisions we propose, U.S. farmers will be the ultimate beneficiaries although the actual credit taker will be the foreign purchaser. This is an important point. Our proposal would complement, not supplant, the financing presently provided by commercial banks to U.S. agribusiness companies that are not cooperatives. The foreign purchaser--not the U.S. exporting company--is the credit taker in these transactions.

With the exception of CoBank, most agricultural export financing is provided by foreign banks with little or no long-term commitment to U.S. agriculture and little or no interest in the long-term health of our nation's farm economy.

Based on CoBank's past experience, we can demonstrate that the availability of the bank's financing has resulted in sales of U.S. agricultural products that would not otherwise have taken place.

It is important to note that CoBank has an obligation to protect the interests of the farmer-owned cooperatives involved in export markets and who capitalize the bank. For that reason, we support a clear statutory mandate that the bank must continue to give priority treatment to farmer-owned cooperatives.

EOjc/PB/362

When implementing the bank's authority to finance exports to the former states of the Soviet Union, it was our practice to use this authority to steer business to farmer-owned cooperatives. The changes in law we are proposing are consistent with this practice. Our proposal is simply a recognition that all U.S. agricultural exports originate from a farm and any assistance we can provide to expand export markets is consistent with our mission to serve agriculture.

CoBank clearly has a role to play in helping U.S. agriculture and rural communities to become more competitive. Our interest in this area is driven by the knowledge that Congress established the Farm Credit System and CoBank to serve rural America. We are also motivated by the fact that our customer-owners are demanding financial services they will need to survive so they can serve their rural customers and realize the benefits of a prosperous rural economy.

The future of rural America will be largely dependent on the maintenance and expansion of export markets, the development of new markets in foreign countries, and on the ability of farmers to capture profits that can be realized by adding value to their product after it leaves the farm gate.

Mr. Chairman, attached to my testimony is a paper that addresses the most frequently asked questions about CoBank's international banking activity. I would ask that this document be included in the hearing record.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear here today. I would be pleased to respond to any questions.

(Attachment follows:)

EOjc/PB/362

COBANK
Rural America's Cooperative Bank

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U.S. FINANCING NEEDED TO PROMOTE AGRICULTURAL EXPORTS AND FARMER-OWNED COOPERATIVE INTERNATIONAL BUSINESS ACTIVITY

CoBank is the only U.S. bank that is a major and consistent source of financing for agricultural exports. As part of its international banking program, CoBank actively markets U.S. agricultural products and works with many commodity and government organizations to develop new export markets. This commitment is unique in the banking industry and has resulted in CoBank extending $18.5 billion in export loans over the past 12 years. In addition, CoBank and the Springfield and St. Paul Banks for Cooperatives provide 85 percent of all of the credit that is extended to farmer-owned cooperatives in the U.S.

For these reasons, it is in the best interest of American agriculture to ensure that the Banks for Cooperatives are provided the tools needed to increase agricultural exports and support the international business activities of farmer-owned cooperatives. Current law limits CoBank's export financing activity to products that are originated from cooperatives. Current law also effectively prohibits farmer-owned cooperatives from obtaining financing for their international business activities from their traditional lenders--the Banks for Cooperatives.

Legislation is being proposed that would update provisions of current law to promote the export of agricultural products and enable farmer-owned cooperatives to compete in foreign markets. This legislative proposal would have virtually no effect on U.S. commercial banks. For example, the five most active lenders in the Department of Agriculture's export loan guarantee programs account for an estimated 80 percent of the credit extended. These banks are as follows.

CoBank	$ 14 billion in assets
Rabobank (Netherlands)	$128 billion in assets
Barclays (Great Britain)	$228 billion in assets
Swiss Bank (Switzerland)	$137 billion in assets
Bancque Nationale de Paris (France)	$285 billion in assets

Attached is additional information on CoBank's export financing activity and the practicality of doing business in the international arena.

EOjc/PB/315

QUESTIONS AND ANSWERS ABOUT CoBANK'S EXPORT FINANCING BUSINESS

Background

Since 1980 CoBank has been authorized to finance agricultural exports for the benefit of agricultural cooperatives. The proposed legislation would authorize CoBank to finance the export of any U.S. agricultural product, regardless of source.

Under current law, the bank has funded about $18.5 billion in export loans involving 30 products and 45 countries. CoBank is the most active lender participating in the Department of Agriculture's export loan guarantee programs (often referred to as the GSM programs). It is also the only lender that actively markets U.S. agricultural products. The bank recently opened a representative office in Mexico City to help develop new markets for U.S. agricultural products in Mexico.

Question: **In its simplest form, how does CoBank's international banking business work today?**

Answer: A foreign purchaser of U.S. agricultural products obtains financing to pay for the product from a bank operating in the purchaser's country. In turn, that bank opens a letter of credit (arranges to obtain a loan) from CoBank. When the sale is executed, CoBank pays the U.S. seller and collects the loan from the foreign bank under the terms and conditions agreed to by the banks. The foreign bank is responsible for obtaining payment from the foreign purchaser. That business arrangement is of no concern to CoBank since the foreign bank is the credit taker and the party responsible for paying CoBank. On some occasions, when the country risk and credit factors are acceptable, CoBank will extend short-term trade financing directly to the foreign importer.

A unique aspect of CoBank's international business is the bank's role in working with foreign buyers and banks to promote sales of U.S. agricultural products. CoBank wants its services and expertise to be viewed as part of the package involved in purchasing U.S. agricultural products. This often gives U.S. agricultural products an advantage in the world market. The bank also works closely with U.S. exporters to take advantage of opportunities in the market and facilitate individual transactions. No other bank in the world has a similar commitment to marketing U.S. agricultural products.

Question: **What factors complicate the transactions?**

Answer: In most cases, current law requires CoBank to trace the source of the export products being financed to a farmer-owned cooperative. This is done by requiring shippers to provide a certification as to the source of the product (usually grain). However, almost all agricultural exports are shipped by noncooperative companies who find it cumbersome to track the source of the product or, they may choose not to certify the source for other reasons. In addition, the financing for a purchase is often arranged prior to the actual sale, requiring CoBank to offer a financing package for products that may later be

determined to be ineligible. In those cases, the Farm Credit Administration requires that the loans be immediately sold to another bank even if CoBank must take a loss on the sale.

Question: **Are there cases when CoBank is not required to trace the source of the product to a cooperative?**

Answer: Yes, for loans that meet the following criteria: (1) The country involved must be one of the states of the former Soviet Union (FSU) or be an emerging democracy (not yet defined by the State Department); (2) The loans must be supported by at least a 95 percent federal loan guarantee; and (3) The loans must be made prior to 1995. Under this authority, the bank has originated $1.7 billion in loans.

Question: **What about products other than grain?**

Answer: Current law, for the most part, limits CoBank's financing to cooperative-sourced products. If the law is changed as proposed, CoBank's export financing would be made available to all agricultural market segments--including those where cooperatives are not active. For example, few cooperatives are involved in the livestock industry today but foreign markets offer a growing opportunity for that industry. Financing will be key to accessing those markets.

Question: **Does current law protect the interest of cooperatives?**

Answer: The 1980 law may have been intended to protect cooperatives or it may have been intended to limit competition at a time when many U.S. banks thought export financing would be a lucrative business. Today, no U.S. commercial bank is consistently in the agricultural export financing business and few cooperatives are directly exporting. While market conditions have changed, the law has not.

Question: **What does CoBank propose as a solution?**

Answer: CoBank needs authority to finance the sale of U.S. agricultural products regardless of source. However, the bank also supports a requirement that cooperatives be given priority treatment under policies established by the bank. A similar policy was voluntarily adopted by the bank with regard to the financing of exports to FSU countries. This is a reasonable requirement in view of the fact that cooperatives provide the $1 billion in equity capital that is needed to operate the bank.

Question: **CoBank's proposal doesn't limit financing to loans supported by a federal guarantee, why not?**

Answer: Except in the case of the states of former Soviet Union or emerging democracies, CoBank is not required to utilize loan guarantee programs. In fact the bank has made over $5 billion in unguaranteed loans in support of export transactions over the past 12 years. The bank's record of performance on these loans has been very good. Many of these unguaranteed loans were short-term and balances outstanding on an unguaranteed basis have generally been less than

$500 million at any time. For developing countries like Mexico, there will be increased need for this type of financing and less reliance on loan guarantees in the future.

In the case of the FSU, the bank suggested tying its lending authority to federal guarantees to reassure policy makers concerned about the creditworthiness of the countries involved. Although the law requires only a 95 percent guarantee of those loans, CoBank would not have made the loans with anything less that the 100 percent guarantee eventually provided--whether or not the law had addressed this issue.

Question: **Who will benefit if CoBank is allowed to finance the sale of agricultural products from any source?**

Answer: The bank's stockholders and U.S. agriculture will be the most obvious beneficiaries. The bank will be more competitive and dependable as an organization committed to supporting U.S. agricultural exports. As a result, foreign banks and buyers will be more willing to utilize CoBank's services and solidify existing relationships. The more foreign banks and buyers use CoBank's services, the greater the bank's ability will be to influence decisions that will benefit U.S. farmers.

Question: **Will anyone be adversely affected if CoBank is allowed to finance the sale of U.S. agricultural products regardless of source?**

Answer: Virtually no person or business in the U.S. will be adversely affected by this change. In some cases, foreign countries will lose sales if CoBank's financing helps make U.S. products more competitive. In addition, the foreign banks that are CoBank's principal competition may lose business. These banks include:

CoBank	$ 14 billion in assets
Rabobank (Netherlands)	$128 billion in assets
Barclays (Great Britain)	$228 billion in assets
Swiss Bank (Switzerland)	$137 billion in assets
Bancque Nationale de Paris (France)	$285 billion in assets

Question: **Why don't U.S. commercial banks finance the sale of agricultural exports?**

Answer: There are a variety of reasons. Most countries purchase their food imports by paying cash. For the most part, poor and developing countries need credit to buy food on terms as favorable as possible. Therefore, the profit on agricultural trade financing is low relative to other options available to U.S. banks. In addition, agricultural trade financing is a speciality that cannot be easily entered or converted to another type of business, thus minimizing a lender's options to adjust to changing markets and opportunities.

EOjc/PB/332

Question: **If U.S. banks don't like to provide agricultural trade financing, why are foreign banks willing to do so?**

Answer: Many foreign banks operate under less restrictive regulatory conditions than U.S. banks and therefore have greater flexibility to commit capital to business activities with low rates of return. Also, the foreign banks that provide trade financing in the U.S. are enormous by our standards and a large part of their business and profit is generated from international activities. Finally, these foreign banks are truly multinational corporations that view their principal markets as outside of their home country. For these entities, agricultural trade financing is a way to enhance and expand already existing positions in other countries.

Question: **Is U.S. agriculture at risk if it must rely on foreign banks for export financing?**

Answer: Yes. Foreign banks can't be expected to promote the sale of U.S. agricultural products. They're in the business of financing trade transactions to generate income for their own account and the origin of the product is immaterial. Also, foreign banks often respond to the policy direction of their governments. For example, prior to the end of the cold war French banks had been heavily involved in financing both French and U.S. agricultural exports to the Soviet Union. When the French government developed additional credit programs to assist the FSU these banks focused on supporting programs of the French government rather than financing U.S. agricultural exports.

STATEMENT OF RICHARD NELSON, EXECUTIVE DIRECTOR

AGRICULTURAL UTILIZATION RESEARCH INSTITUTE

Mr. Chairman, members of the Subcommittee, I am Richard Nelson, Executive Director of the Agricultural Utilization Research Institute (AURI), a non-profit corporation created by the State of Minnesota to strengthen its economy through the development and commercialization of new uses and new markets for farm products. On behalf of the Institute and its Board of Directors, thank you for the opportunity to address the subcommittee on "High-Value Exports and the Contribution to the Rural Economy". AURI technical and business development staff, based in four of Minnesota's rural agricultural communities, work with entrepreneurs and local agri-businesses to identify ideas with high value-added potential and to assist in the development and commercialization of products and processes.

For generations, production agriculture has supported the economic and social fabric of rural America. Today, that fabric is wearing thin; the trend is neither isolated nor temporary. It started long before this last "recession", and without fundamental change, will continue through the current "recovery". Numerous agricultural assistance and support programs and a feverish pace of scientific discovery have built unsurpassed efficiency into American agriculture. However, farms, small businesses and entire towns continue to disappear from the rural landscape at an alarming rate.

Is the trend reversible? Yes, but fundamental changes must be engineered into strategies for the future. The "can do" spirit of rural America is alive and fully capable of reversing the trend. New export markets for value-added products can boost rural prosperity, but only when a greater share of the added value is actually *retained* in the producing region. We must think beyond production and focus on profitability. A new vision of agriculture and rural development is in order, both in our communities and at all levels of government.

A Strategy to Advance Value-Added Products in Rural Communities

The Agricultural Utilization Research Institute fosters long-term economic benefit and increased business and employment opportunities for rural Minnesota by:
(1) identifying, expanding, and creating new markets for agricultural commodities, ingredients and products, (2) developing more energy efficient, natural resource-saving farm production practices, and (3) developing new industrial uses and value-added products from Minnesota agricultural commodities.

The AURI strategy to advance value-added product development in rural communities is to provide high quality, accessible and responsive services through locally accountable outlets. Programs are market-driven, and include a full menu of technical, business and financial assistance options. AURI promotes success by identifying, sharing and overcoming the risks of innovation. In-house facilities and a multi-disciplinary network of "experts" offer custom-tailored support. Local leaders know local capabilities and ambitions best, and carefully targeted services enable these leaders to fulfill their own ambitions . The human capacity and physical infrastructure to create new wealth in rural America exists. The challenge is to produce more income from our commodities, not to produce more commodities from our fields.

The Case for Value-Added Exports

Farmers of the past three or four generations have seen their share of the retail food dollar decline from 41¢ to 9¢. The value-added processing and marketing share has grown to nearly 70¢. In fifteen years, consumer food costs have risen 65%, while farmers are receiving 4% less. Even though farmers own six times the production assets of the fifty largest food companies, the market share claimed by those companies is at 80% and rising. In the food business today, the profits are in downstream processing, distribution and marketing, not in commodity agriculture.

Faced with the uncertainty of federal support programs and falling trade barriers, farmers are increasingly convinced that future prosperity means penetrating the value-added segment of the marketplace. Fortunately, world-wide opportunities exist for American farmers and rural entrepreneurs to do exactly that. Consolidation in the food industry creates larger niches in the domestic market, and rising incomes in developing countries create new demand abroad for value-added goods.

Innovative smaller companies can capture profitable markets that, by the standards of the huge conglomerates, are inconsequential. A new manufacturer, selling $10 million into niche markets annually, could quickly reverse the fortunes of any of a thousand small, struggling towns. The same sales would be virtually undetectable on the quarterly reports of most major multinationals. Small and nimble companies should be able to identify and serve developing markets quickly. Many export markets are

particularly suited to smaller companies, if they are willing and able to thoroughly learn the intricacies specific to each foreign market and/or consumer group.

Small and start-up companies who access appropriate production technology, collect good market information, and secure adequate capitalization will be the growth companies of the future. Many of these companies could originate and grow in rural areas if the practical barriers noted above (technology, information, capital) can be overcome, and that is AURI's primary task. Furthermore, farmers can and should take an active and direct role in creating their own value-added enterprises. Over the long run, the return on such investment, regardless of weather, market volatility, or world trade issues, is far better than the return on bulk commodity production.

Commodity-based marketing obliges producers to work on the thinnest of margins, often in a surplus market. As world trade barriers are dismantled and artificial subsidies fall, will the average American farmer be able to compete against the commodities of developing economies where costs and pricing targets are typically much lower? On the other hand, as off-shore economies grow beyond the subsistence level, consumers there will demand (and pay for) variety, safety, convenience, sophistication, technology and the other characteristics that create profit in our own markets. Value-added exports to countries where per capita incomes are rising need to be aggressively pursued, and they need to be pursued by companies that create jobs, economic growth, and value-added products in our own agricultural regions.

AURI Successes and Opportunities

AURI builds public/private partnerships whose purpose is directed specifically toward creating new value-added business in rural Minnesota. The major differences between AURI programs and most others are: (1) offer personal, on-call assistance before, during and after the project, (2) let local private and public sector innovators define the opportunities and lead the projects, (3) specify outcomes, leverage resources, and share risks, and (4) operate flexible, multi-dimensional programs and services.

The IC^2 Institute at the University of Texas has studied the high failure rate of business innovations. They conclude that either "marketing" or "management" is the principal

cause of failure 51% of the time. "Technology" and "capital", the two targets of most assistance programs, lag far behind at 12% and 15%, respectively. It is not surprising that "one size fits all" programs, especially those directed only at granting funds or transferring technology, often fall short of expectations. Such programs, of course, are easy to administer, but administrative ease contributes little to customer success.

AURI builds its services around the "customer's" idea. We evaluate its potential benefits and anticipate the risks. Together, we design an assistance package that capitalizes on our collective strengths and mitigates identified weaknesses. We strive to create the conditions necessary for our customers to succeed. but rarely do we create success alone. It is truly a team effort.

AURI has over 250 projects in its portfolio. The following examples offer a brief but representative characterization of our activities.

- *Bio-degradable, loose-fill packing "peanuts"*: Made from starch, a small MN company has captured 50% of the Minneapolis/St. Paul market and created 15 new jobs. The product is environmentally superior to polystyrene; it has a $4 million and $90 million market potential in Minnesota and worldwide, respectively.
-*Edamame snack food*: Specially grown and processed soybeans are a popular oriental snack. Growers can receive a 60¢/bu premium, the company projects the creation of 20 new jobs, and the market potential is estimated at $2.5 million. Japan is the chief export market for this product.
- *Dehydrated Vegetables*: High quality dehydrated vegetables are in demand by food manufacturers. AURI's client is already selling $4 million of carrots and potatoes, has created 60 new jobs, and is part of a regional effort to start a whole new industry in Minnesota agriculture.
- *Lean, residue-free pork*: American meat products are world-class. Specialty products for "gourmet" and "health" markets are in demand. This company processes 228 head weekly, adding over $1 million dollars of value to the rural economy every month.
- *Wood farming*: AURI is leading a consortium to establish trees (hybrid poplars) as a new crop on marginal farm land. Short-rotation (<10 yr) poplars can be used in wood and paper products, reducing logging pressures on public lands and returning thousands of acres of subsidized idle land to productivity. With new conversion technologies, a

strong renewable energy market is also envisioned. Representatives of a Norwegian economic development agency and a wood products manufacturer recently visited AURI and expressed interest in composite material products developed with AURI assistance.

- *Renewable fuels*: High-value niche fuel markets are accessible to high-performance, clean-burning renewable fuels without public subsidy. AURI is actively developing technology and/or markets for bio-diesel in underground mining applications (where air quality is critical), and for 95%+ ethanol in general aviation (the best current fuel alternative that meets performance *and* Clean Air Act standards). With biofuels receiving a high profile in the European Community and other regions of the world, it is very important for the U.S. to place a priority on identifying means of building a rural-based biofuels industry.

Rural Development and Federal Policy

Expert assistance and/or funding from outside organizations and interest groups is actively sought wherever such contributions can improve the odds for a new value-added enterprise. AURI routinely works with college and university researchers, other state agencies and non-profit groups. One such group, an alliance for value-added agriculture called the Northern Plains Consortium (NPC), is a particularly promising interstate public/private venture. AURI has also collaborated with USDA's Cooperative States Research Service, the Ag Cooperative Service, and ARS Labs in Peoria (IL) and Albany (CA). Other projects include federal entities outside of agriculture such as the Departments of Energy and Interior, and the list continues to grow.

At the federal level, however, it is USDA that ought to be first to: (1) endorse a new and comprehensive program for value-added agriculture in rural America, (2) recognize that the usual service delivery systems may not be the best choice for implementation, and (3) resolve that the economic and social benefits of value-added agriculture simply must be realized. One USDA initiative, the Alternative Agricultural Research and Commercialization Center (AARC), holds promise. Its enabling legislation is insightful, showing a solid understanding of the linkages between value-added agriculture, rural prosperity, new uses and new markets. It further recognizes that local, knowledgeable service providers are best able to turn rural opportunities into successes.

Last year, in order to quickly prove the principles embodied by AARC, an application from the Northern Plains Consortium (NPC) to operate a regional AARC Center was approved. AURI, as a founding member of NPC, was chosen to host the center. While we are still awaiting formal approval to begin operation of the Regional Center, we are confident that given Secretary Espy's very clear priorities and leadership, the AARC program will soon begin to fulfill the expectations of its authors and supporters in Congress and across the country.

New agricultural enterprises that add value to farm products and retain that value in the producing regions can and will succeed with modest, well-crafted and locally accessible assistance. By supporting such programs, government can have a major, positive impact on farm profitability, and begin to resurrect the distressed economy of rural America. The benefits of this strategy, however, extend well beyond the farm economy. They include: (1) improved national balance of trade, (2) economic sustainability for our best land stewards, the farm family, (3) slower urban migration, and a reduction in the associated stresses and costs, (4) rural repopulation and the recycling of rural infrastructure, (5) reduced vulnerability of agriculture to natural disasters, increased economic diversity and depth, and (6) realignment of some agricultural program goals, in preparation for the globalization of agricultural trade.

Clearly, the broad and beneficial impact of developing accessible markets for rural manufacturers of high-value agricultural exports merits strong federal leadership and a priority status.

Statement of

Brenda Branch
Chairman of the Hall County Commission, Georgia

Good morning, Mr. Chairman and members of the subcommittee. My name is Brenda Branch, Chairman of the Hall County Board of Commissioners in Georgia. I have been Chairman since 1993 and am very pleased and honored to have this opportunity to share my thoughts with you regarding the importance in my county of the poultry and egg industries. In every respect, these are vital and vibrant industries which add value to raw commodities like corn and soybeans and add jobs and income to our local economy.

We are a world class leader in the poultry and egg industries and we are well positioned to meet the growing domestic market for poultry meat and we are at least equally, if not better positioned, to meet the demands of the even faster expanding export market for American poultry meat, breeder stock, manufactured equipment, and related inputs and services involved in poultry/egg production, processing, and marketing.

Located only 50 miles northeast of Atlanta, Hall County is home to one of the nation's most diverse local economies. For example, Hall County serves as a regional base for health care, insurance, legal services, retail trade, manufacturing, agribusiness, and recreation. We have gained much knowledge from the 35 international corporations which have facilities there. But we recognize we are a part of a global economy and we must, at every occasion, open doors of international opportunities beyond those we have opened before. Agribusiness, lead by poultry and egg companies, in Hall County reflects our county's diversity and world strength.

Hall County is fortunate to have an excellent combination of far-sighted leaders; dedicated, hard-working people; necessary and sufficient resources; and positive attitude that have permitted my county to become a leading poultry and egg area of the United States. Hall County is considered the hub of Georgia poultry and egg industry. Several interrelated components comprise the industry in my county. These are:

- Vertically-integrated companies that include hatcheries, feed mills, poultry processing plants/further processing operations, and distribution service
- Parent and grandparent breeders
- Feed ingredient suppliers
- Broiler growers
- Table egg producers
- Transportation service for inputs and finished products
- Veterinary/health product suppliers and providers
- Consultants for management and marketing
- Tractor manufacturing and assembling
- Equipment manufacturing

To help put the importance of the poultry and egg industry in Hall County into perspective, permit me to share with you certain basic economic data:

Population	Approximately 100,000 persons (1994)
Area	392 square miles
Total employment	46,000 workers (1994)
Direct poultry/egg industry employment	6,000 workers (1992)
Poultry or egg contractor growers	Approximately 300 farmers
Revenues generated by poultry and egg industry	$925.2 million (1990*)
Poultry and egg revenues as a share of total manufacturing sector-related revenues	27 percent (1990)

* includes direct labor and supplier payments, local and state revenues

As can be noted from these data, the poultry and egg industry is the leading revenue generator in my county. In fact, the relative importance of these businesses is becoming greater. And, as an elected official concerned about how to pay for public services, I can assure you that these industries are vital for maintaining our tax base. Without the poultry and egg industry and the dynamic economic ripple effect this industry has throughout our local economy, Hall County would be a far different and much less vibrant community.

From a national perspective, the poultry export market has been expanding much more rapidly than the domestic market and agribusinesses in Hall County have contributed mightily to this phenomenal growth. Between 1983 and 1993 the U.S. broiler chicken market increased from 12 billion pounds to over 20 billion pounds, an increase of two-thirds. While this growth is impressive, it does not match the growth in broiler exports which ballooned from 432 million pounds in 1983 to 1.966 billion pounds last year, or an increase of more than 350 percent.

Whether you are a business manager careful analyzing your markets or a locally-elected government official like I am, you study past trends to give yourself an idea of what the future may hold. When I look, I see a future for the Hall County poultry and egg industry that must focus more and more on the rapidly growing and promising export market. As the county's chief elected officer, I am in a position to understand our poultry and egg industry at it competes nationally, and as it competes with companies in Brazil, Thailand, France, and China.

Mr. Chairman, we do not seek special assistance or government subsidies for these economic entities. However, we do seek recognition and acknowledgement that value-added industries, such as the poultry and egg industry, are of growing economic importance to local economies like Hall County, Georgia, and can contribute a small step toward correcting the tremendous imbalance of international trade. And, although we ask for no special government provisions to help with the poultry and egg industry's success, we do ask that our federal government demonstrate a determined will when our global competitors unfairly take world poultry and egg markets or when importing countries arbitrarily and capriciously erect illegal trade barriers.

Mr. Chairman, I sincerely appreciate the opportunity to present these thoughts with you and your subcommittee.

EASTERN UNITED STATES
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Statement of
Ronald L. Gaskill, Executive Director
Eastern U.S. Agricultural & Food Export Council, Corp.
Camp Hill (Harrisburg), PA
before the
House Agriculture Subcommittee
on Foreign Agriculture and Hunger

April 28, 1994

Good morning Mr. Chairman, Honorable members of the Subcommittee; I am Ron Gaskill, Executive Director of the Eastern U.S. Agricultural & Food Export Council, Corp. (EUSAFEC). I am pleased to be here this morning to provide you with a view of the projected economic impact of export market development programs for high-value agricultural & food products as such programs are created and implemented by the four State-Regional Trade Groups in cooperation with the USDA's Foreign Agricultural Service (FAS).

By my appearance here this morning, I am privileged also to represent the general views of the Executive Directors of the three other State-Regional Trade Groups, the Mid America International Agri-Trade Council (MIATCO) based in Chicago, IL, the Southern U.S. Trade Association (SUSTA) based in New Orleans, LA, and the Western U.S. Agricultural Trade Association (WUSATA) based in Vancouver, WA.

The four State-Regional Trade Groups are private, not-for-profit international trade development organizations whose regular members are the state departments of agriculture throughout the

United States and its territories. State-Regional Trade Groups combine federal resources of the Foreign Agricultural Service with resources of the state departments of agriculture and private sector firms to develop exports and export markets for value-added, U.S. agriculture and food products. The State-Regionals have actively championed this public-private approach to export development and promotion since about 1970.

The four State-Regional Trade Groups actively implement programs exclusively to increase exports of value-added food and agriculture products. In fact, this emphasis was restated by EUSAFEC just last week at a EUSAFEC Strategic Planning retreat where it's mission statement was reaffirmed to: "...increase exports of food and agricultural products to improve business and farm income, and to create jobs in the Northeast".

For program years 1991 and 1992, the State-Regional Trade Groups summarized the economic impact of their programs to determine their effectiveness in achieving their missions. The latest summary, prepared in November 1993 (copy attached), confirmed that exports of value-added products through State-Regional Trade Group export development programs:

A) directly sustained over 145,000 jobs nationwide;

B) created 10,000 new jobs in rural and urban areas from the increase in export sales;

C) generated $2.32 billion in revenue to 393 companies, 83% of which were defined as small by the Small Business Administration;

D) increased export sales by 37% ($161 million) from FY1990 to FY1992.

To further determine where economic benefits were accruing from EUSAFEC export development programs, a survey of company participants in EUSAFECs 1992 Branded Promotion Program was undertaken. The survey requested information about the locations of food and/or agricultural processing plants, warehouses, etc.; the number of employees employed at each location; their union representation, if any; and the types of products produced at the location.

Attached is the list of plant locations (primarily Northeast) which results from the survey. As can be seen, the list contains the names of several small and medium sized towns but fewer major cities. This confirms to EUSAFEC that its export development programs for value-added products do have a positive economic benefit for largely rural, but also urban areas of the Northeast.

Examples of firms which have initiated or increased exports of value-added food and agriculture products, and subsequently increased employment, are numerous. In fact, as we speak here this morning a delegation Chinese retail buyers from Hong Kong are in EUSAFEC's conference room meeting with sales representatives from firms, mostly small in size, located throughout the Northeast. At least six of these firms have increased employment directly as a result of entering export markets.

EUSAFEC and its State-Regional colleagues are deliberate in their intent to seize the export

momentum and increase exports of value-added food and agricultural products even more. One new initiative to accomplish this objective will be the launch of a comprehensive education and training program which will provide personal assistance to companies that wish to enter export markets, and to veteran exporters that wish to expand their exports to new country markets. The result will be that more companies become export capable and therefore more economically viable.

Mr. Chairman, again I appreciate the opportunity to present the general views of the State-Regional Trade Groups on this matter. We appreciate the Subcommittee's interest in this important economic development topic and look forward to responding to any questions that members may have.

attachments:

Jobs And Exports: MPP Success Stories

NE Company Survey

(Attachments follow:)

STATE REGIONAL TRADE GROUPS

JOBS AND EXPORTS: MPP SUCCESS STORIES

November 1993

Western United State Agricultural Trade Association (WUSATA)
Mid-America International Agri-Trade Council (MIATCO)
Southern United States Trade Association (SUSTA)
Eastern U.S. Agricultural Food Export Council, Inc. (EUSAFEC)

EXPORTS CREATE JOBS

More that 145,000 jobs depend on the export sales generated by the companies participating in the State Regional Trade Groups (SRTG) Branded and Generic programs.

The increased exports of firms participating in the SRTG Branded and Generic programs from 1990 to 1992 created 10,000 new jobs in both rural and urban areas.

MPP EXPANDS EXPORTS

Companies participating in the SRTG FY 92 Branded and Generic programs exported $2.32 billion worth of high value agricultural and marine products.

The SRTG Branded programs increased export sales by 37% from FY 90 to FY 92. The $161 million in additional Branded exports were 22 times the total amount of Market Promotion Program (MPP) funds allocated to companies in FY 92.

Companies in the SRTG Branded programs have introduced and promoted over 200 different products in more than 60 export markets.

FEDERAL TAX REVENUES GROW

The increases in exports by Branded companies in FY 92 expanded federal tax revenues by an estimated $35 million, giving the government a 5-to-1 return on its Branded MPP investments through the SRTGs.

MANY COMPANIES OF VARIOUS SIZES PARTICIPATE

The number of companies participating in the Branded programs through the SRTGs has risen from 78 companies in 1987 to 393 companies in 1993. More than 450 companies are expected to apply for the 1994 SRTG Branded programs.

Most of the companies are small. Based on their number of employees, 61% of the firms are defined as small (less than 100 employees), 22% are medium-sized (100 to 500 employees), and only 17% are large (more than 500 employees).

The average 1991 allocation to individual companies under the SRTG Branded programs was $50,000. To make the program available to as many applicants as possible, each SRTG places a limit on the amount of MPP resources it allocates to individual companies. In 1993, no firm received more than $270,000.

The SRTGs contributed $4.1 million in FY 92 to carry out their MPP programs. This represents a substantial contribution above and beyond the minimum program requirements. In addition, Branded companies spent more than $7.5 million in matching funds during FY 92.

SRTGs WORK TOGETHER ON THEIR EXPORT PROGRAMS

The SRTGs held 42 export education seminars in 44 states in 1992. The seminars were attended by more than 1,000 individuals, mostly from private companies.

The SRTGs jointly designed and managed export development activities in Japan, Hong Kong, Mexico, and Europe.

SRTGs are private, non-profit international trade development organizations which combine federal, state, and industry resources for export market development. SRTGs cooperate to utilize human and financial resources of state departments of agriculture with program and financial resources of USDA's Foreign Agricultural Service (FAS) to expand exports of U.S. high-value agricultural products and to educate and assist companies in developing export markets.

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NE Companies Responding To MPP Survey

Company Indent. #	Plant Locations	# Employees	Union Representation	Products
001	Cranston, RI 02920	15	No	Fruit Beverages
	Providence, RI 02909	125	?	(same)
	Barker, NY 14012	100	?	(same)
002	Bayonne, N.J. 07002	?	?	Consumer Foods, multiple lines
	Jersy City, NJ 07306	?	?	(same)
	Greenwich, CT 06830	?	?	(same)
	Totowa, NJ 07512	?	?	(same)
	Weymouth, MA 02188	?	?	(same)
	Bronx, NY 10461	?	?	(same)
	Frederick, MD 21701	?	?	(same)
	Gastonia, NC 28054	?	?	(same)
	Asheboro, NC 27204	?	?	(same)
003	Lynn, MA 01902	25	No	Sandwich Spread
004	Providence, RI 02903	?	?	High-Value Processed Foods
005	Fonda, NY 12068	3	No	Maple Products
006	Peterson, NJ 07513	220	Local 50 - Bakery, Confection & Tobacco Workers (AFL-CIO)	Bakery Goods
007	Dundee, NY 14837	28	No	Wine
008	Derry, NH 03038	30	No	Vitamin Supplements
009	Persippany, NJ 07054	195	Local 50 - Bakery, Confection & Tobacco Workers (AFL-CIO) and Local 68-68A-68B, International Union of Opereting Engineers	Health & Dietetic Foods
010	Haverhill, MA 01835	30	?	Pasta
011	Easton, PA 18042	180	Local 6 - Bakery, Confection & Tobacco Workers (AFL-CIO)	Snack Foods
	Scarborough, ME 04074	120	No	(same)
012	Mineola, NY 11501	37	No	Confectionery
013	Milton, DE 19968	600	No	Processed Vegetables
014	Allentown, PA 18103	245	IBT-Commerical Workers & Helpers of America - Local 773	High-Value Processed Foods
	Chambersburg, PA 17201	208	(same as above) - Local 570	(same)
	Erie, PA 16510	252	No	(same)
	Federalsburg, MD 21632	55	Teamsters - Local 355	(same)
	Northeast, PA 16428	95	IBT-Commercial Workers & Helpers of America - Local 397	(same)
	Portland, ME 21632	55	BC&T Local 334	(same)
	Vineland, NJ 08360	409	United Food & Commercial Workers Union - Local 56 and IBT-Commercial Workers & Helpers of America - Local 678	(same)
015	Bloomsburg, PA 17815	823	No	Pet Food
016	Buffalo, NY 14220	304	No	Dairy Products
	Cheektowaga, NY 14227	108	No	(same)
	Goshen, NY 10924	111	No	(same)
017	Gardners, PA 17324	50	No	Pet Food
	East Berlin, PA 17316	7	No	(same)
018	Bainbridge, NY 13733	40	?	Grain Mill Products
	Lancaster, PA 17601	50	?	Snack Foods
	Lewistown, PA 17044	30	?	Honey
019	Lafayette, NY 13084	27	No	Fresh Fruit (Apples)
	Lafayette, NY 13084	33	No	(same)
	Burt, NY 14028	28	No	(same)
	Lyndonville, NY 14098	32	No	(same)
	Ransomville, NY 14131	20	No	(same)

NE Companies Responding To MPP Survey

020	Portland, ME 04101	50	No	Fish & Seafood
021	Batavia, NY 14020	59	No	Wine
	Canangaigua, NY 14424	245	No	Wine
	Hammondsport, NY 1484C	228	No	Wine
	Naples, NY 14512	98	No	Wine
022	Nottingham, PA 19362	401	No	Snack Foods
	Chillicothe, OH 45601	35	No	(same)
023	Wilbraham, MA 01095	405	No	Dairy
024	Warwick, RI 02888	?	?	Fruit Juices
	Dundee, NY 14837	?	?	(same)
	Fleetwood, PA 19522	?	?	(same)
025	Westfield, NY 14707	59	Wine, Liquor & Distillery Workers Local Union #1	Wine
026	Williamson, NY 14589	350	Retail/Wholesale Dept. Store Union Local 220	Fruit Juices
	Aspers, PA 17304	300	No	(same)
027	Lancaster, PA 17604	?	No	Dairy Products
	Elizabeth, NJ 07205	?	No	(same)
	Long View, NJ 07853	?	No	(same)
	Enosburg Falls, VT 05450	?	No	(same)
028	Long Island, NY 11901	33	No	Wine
029	Portland, ME 04013	35	No	Dairy Specialties
030	Vermont 05647	230	No	Dairy
	New Jersey 07503	180	Local 464	(same)
	New York 10001	70	Local 445	(same)
	Pennsylvania 15205	72	No	(same)
031	New Jersey 07407	80	BC&T	Baked Goods
	New York 11751	100	BC&T	(same)
	New York 11963	12	No	(same)
032	Elizabethtown, PA 17022	474	?	Confectionery
	Hackettstown, NJ 07840	1305	?	(same)
033	Bedford, MA 02740	30	No	Fish & Seafood
034	Hartford, CT 06106	15	No	Specialty Foods
035	Brooklyn, NY 11211	20	No	Beer
	Utica, NY 13503	100	No	(same)

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